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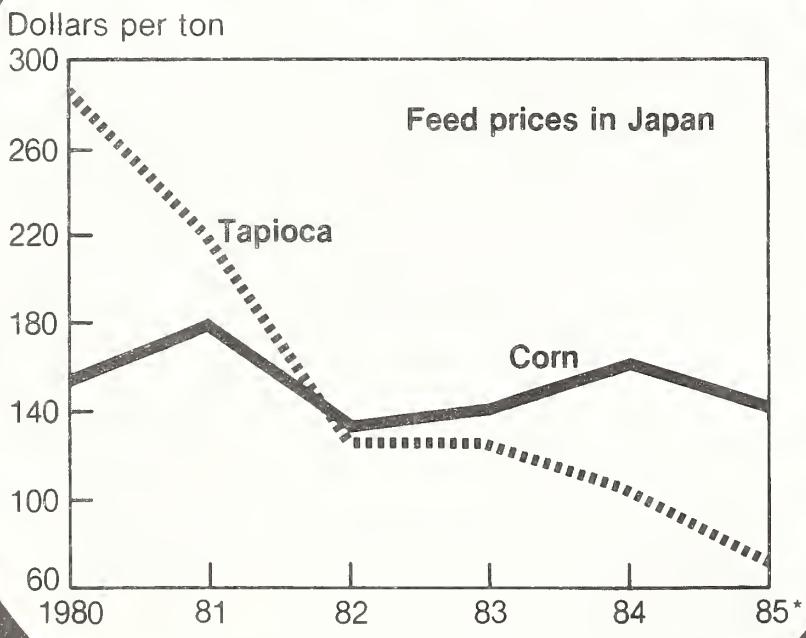
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September 1985

World Agriculture

Outlook and Situation Report

Tapioca Challenges Corn in World Markets



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Note: Tons are metric, dollars are U.S., and rice is on a milled basis unless specified otherwise.

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SUMMARY

Slower U.S. economic and import expansion is a major reason world growth will be held to about 2.9 percent this year, down from 4.0 in 1984. Although declines in the value of the dollar should make U.S. exports relatively less costly, good crops abroad, foreign economic growth below the 1970's, and price undercutting by U.S. export competitors will continue to curb U.S. export value and volume into fiscal 1986.

Fiscal 1985 U.S. agricultural export value is expected to fall to \$32 billion, 16 percent below fiscal 1984, while volume is forecast to decline 10 percent to 129 million tons. U.S. exports to major markets such as Western Europe, Japan, and Middle Income East Asia (South Korea, Taiwan, and Hong Kong) are down from last year. A further deterioration in the U.S. agricultural export picture is expected in 1986. World stocks of grains and oilseeds are expanding, pressuring prices downward. Although U.S. grain exports to the USSR were record large in fiscal 1985, improved crops there will reduce their import requirement in fiscal 1986.

World meat production rose 2 percent this year, but may gain only slightly next year as pork and poultry advances exceed a decline in

beef and veal. Both pork and beef output are forecast to diminish in the United States next year.

Cassava (tapioca) is beginning to displace feed grains in world markets as the price for this high-energy feed ingredient falls. A mixture of 80 percent cassava and 20 percent soybean meal replaces an equal weight of corn. The cassava export industry, mainly from Thailand, expanded shipments to the EC which permits nongrain feed imports to enter with minimal tariffs, while domestic grain prices are kept high and grain imports heavily taxed. However, when cassava imports reached a record 6 million tons in 1978, the EC pressured Thailand to cut back to 4.5 million tons by 1986. Consequently, large surpluses developed, lowering the f.o.b. price from an average \$108 per ton in 1984 to \$55 in June 1985.

This situation increased Thai cassava sales to non-EC countries. Approximately 1.5 million tons may be exported to them in 1985, including the Soviet Union, Japan, Portugal, North Korea, South Korea, and Taiwan. The United States has also begun to import small quantities, 14,000 tons through July of 1985.

WORLD ECONOMIC CONDITIONS

Global Assessment

World Economy in Transition

During the first two quarters of 1984, the U.S. economy expanded at a breakneck annual pace of 8.5 percent, and generated a rapidly growing demand for exports from the rest of the world. During the first two quarters of 1985, however, U.S. economic growth slowed to an annual rate of only 1.6 percent, and import volume picked up only 10 percent, compared with an import growth rate of 21 percent from second-quarter 1983 to second-quarter 1984. This slowdown in the U.S. economy and in U.S. import growth is a major factor behind the expected slower world economic growth of nearly 3 percent in 1985.

A factor that could slow world growth by some time next year is a decline in the dollar's value. A weakening of the dollar slows or reduces U.S. imports by raising their costs relative to those of U.S. goods. The dollar's decline over the summer--despite slight gains in September--may continue in 1986. Asian countries, particularly Japan, whose recoveries had been sharply boosted by exports to the United States, are likely to be most affected by their currencies' recent gains against the dollar.

Although Europe and other regions are less dependent on the U.S. market, a dollar depreciation will likely also constrain European exports by making U.S. exports more competitive in common export markets. Contrary to its adverse effect on the rest of the world, the dollar's lower value would help increase U.S. economic growth by raising exports and diminishing imports. However, U.S. agricultural exports are not expected to benefit substantially from the dollar's decline for at least some time.

Several current conditions that are expected to continue--particularly, fairly low inflation and interest rates--will likely stimulate slightly higher rates of consumption and investment demand. Other prospective conditions could increase this demand further. Chief among them is a potential drop in world petroleum prices. World oil demand remains sluggish despite the economic recovery, supplies of petroleum and its products are

abundant, and members of the Organization of Petroleum Exporting Countries (OPEC) continue to wrangle over the cartel's oil prices and production quotas. Many analysts believe that these factors could cause petroleum prices to fall to about \$20 per barrel, down from the current average of around \$28 per barrel--a 25-percent reduction. A reduction of this magnitude would benefit petroleum importing countries, including Japan and Europe, especially if their currencies appreciate against the dollar.

Growth To Continue

Most of the drop in the projection for world economic growth in 1985 reflects the expectation that U.S. growth will sharply decline; growth in the rest of the world will likely continue at about 3 percent this year. The forecasts are provided by Wharton Econometric Forecasting Associates, and the major assumptions are that the dollar will average about 6 percent higher in value in 1985 than in 1984, but gradually come down over the course of the year; world short-term interest rates will slide an average of about 3 percentage points; the U.S. budget deficit will remain large; and petroleum prices will decline only about 2 percent. A potential 25-percent drop in oil prices was not factored into the analysis.

Most foreign regions' economic growth will average at or above the rates of 1984. Major exceptions include Japan, Canada, and Asia. The predominant factor is the slowdown in U.S. economic growth and import demand. Slower export growth is not being offset by

World GDP growth rates 1/

| Region | 1983 | 1984 | 1985 |
|-------------------|------|------|------|
| World | 2.2 | 4.0 | 2.9 |
| Industrialized | 2.4 | 4.6 | 2.8 |
| United States | 3.8 | 7.1 | 2.8 |
| Industrialized | | | |
| less U.S. | 1.8 | 3.4 | 2.8 |
| Japan | 2.8 | 4.7 | 3.5 |
| Developing | -.1 | 2.8 | 2.8 |
| Africa | -.5 | 1.0 | 2.7 |
| Asia | 6.0 | 6.0 | 4.9 |
| Latin America | -3.4 | 2.7 | 2.4 |
| Centrally planned | 3.4 | 3.1 | 3.1 |

1/ Percent change from previous year.

Source: Wharton Econometric Forecasting Associates, World Economic Outlook, July 1985. Some regional aggregations differ from Wharton's.

accelerations elsewhere, so overall growth is lower. For Japan, Canada, Asia, and, and to some extent, Europe, a continuing or intensified decline in the dollar will likely cut export growth even further in 1986.

Exports To Gain Little

The 13-percent decline in the dollar's value from March through August will likely, over time, help raise U.S. commodity exports and prices. A reduction in the dollar against other currencies lowers the cost of U.S. commodities in foreign currencies, thus raising foreign demand overall and making U.S. farm goods more competitive than those of other exporters. Several university studies estimated that dollar depreciations strongly boosted commodity prices and exports during the 1970's, although other factors also contributed.

Several of those "other factors" could play an important role in limiting the benefit of a declining dollar to U.S. agricultural exports. First, the rate of global economic growth will likely remain well under the 4.5-percent average during the 1970's. Growth in 1980-85 will likely average below 2.5 percent. This most affects direct demand for meat and derived demand for feeds. Changes in the dollar will affect relative prices among commodities, changing the mix of commodities exported. However, total exports probably will not expand much until the foreign livestock industries pick up.

A second factor is that two major U.S. competitors, Argentina for grains and Brazil for soymeal, rely heavily on export sales to meet repayment schedules for their international debt. Any competitor can undercut U.S. exports by selling slightly below U.S. prices. This is not too difficult for some competitors since U.S. prices for wheat, corn, and soybeans are at or near their respective loan rates--which are fairly high when expressed in foreign currencies. Argentina and Brazil will likely continue to undercut U.S. commodity prices to maintain or increase their export volumes and foreign exchange earnings. [Art Morey (202) 786-1687]

Dollar Exchange Rates

Since May, U.S. currency has declined sharply in value against the five monies most

Foreign currency units per U.S. dollar

| Year | Mark | Yen | Pound | Guilder | Can\$ |
|---------|-------|-------|-------|---------|-------|
| 1979 | 1.833 | 219.2 | .4713 | 2.006 | 1.171 |
| 1980 | 1.818 | 226.4 | .4299 | 1.987 | 1.169 |
| 1981 | 2.257 | 220.2 | .4983 | 2.492 | 1.199 |
| 1982 | 2.427 | 248.8 | .5722 | 2.669 | 1.234 |
| 1983 | 2.553 | 237.5 | .6592 | 2.854 | 1.232 |
| 1984 | 2.846 | 237.5 | .7483 | 3.209 | 1.295 |
| 1985 | | | | | |
| Jan. | 3.168 | 254.2 | .8857 | 3.579 | 1.324 |
| Feb. | 3.300 | 260.2 | .9141 | 3.734 | 1.354 |
| Mar. | 3.296 | 257.8 | .8903 | 3.724 | 1.383 |
| Apr. | 3.087 | 251.5 | .8066 | 3.490 | 1.364 |
| May | 3.103 | 251.6 | .8001 | 3.510 | 1.375 |
| June | 3.062 | 248.8 | .7818 | 3.450 | 1.367 |
| July | 2.906 | 241.1 | .7241 | 3.270 | 1.352 |
| Aug. 1/ | 2.792 | 237.3 | .7226 | 3.151 | 1.357 |

1/ Preliminary.

important to U.S. agricultural trade. The rate of depreciation accelerated between mid-June and early August, before the dollar stabilized and recovered slightly in early September. The sharp decline in interest rates payable on U.S. dollar deposits here and in Eurocurrency markets was primarily responsible for the dollar's fall; this was a direct result of the expansionary monetary policy followed by the Federal Reserve for most of 1985. Prospects of tighter money control by the Fed, combined with proposed legislation to restrict imports, could lead to a higher value for U.S. currency in foreign exchange markets this fall. However, a recent agreement on foreign exchange intervention by the United States, West Germany, France, Britain, and Japan will stall, if not deny, any short-term appreciation of the dollar.

Interest Rates Fall, Dollar Slips

On May 1, a 6-month deposit of \$100,000 or more could have earned 9.12 percent (annualized) in London. By June 15, the rate of return had dropped more than 150 basis points to 7.6 percent. This steep decline caused investors to seek more lucrative places for their money, such as stocks or bonds denominated in European currencies or Japanese yen. As a result, the dollar's foreign exchange value sank with dollar interest rates.

Actual and assumed Federal Reserve policy had a great deal to do with the changing value of the dollar this summer. Most foreign exchange traders believed that the Fed was accelerating growth of the money supply to spur the sluggish U.S. economy. The monetary

injection lowered the value of U.S. dollars in world markets in two ways. First, and most apparent, the larger quantity of money lowers its unit value; when more dollars are available relative to, say, German marks, the mark will rise in terms of dollars. Second, the increase in money available to credit markets reduces interest rates, at least temporarily. Sagging rates of return make investments in currencies other than dollars more attractive.

Federal Reserve, Trade Policy Effects

The Federal Reserve is well above its monetary "targets" for calendar 1985. The rate of growth in money (measured by any of the most popular aggregates such as M1 or M2) has far exceeded the plans stated by Fed spokesmen so far this year. As a result, some traders believe that the Fed will act to reduce the rate of growth in money for the remainder of 1985, to achieve the targets set for the year as a whole. This belief encourages those traders to act as though U.S. interest rates will rise, and that there will be a smaller supply of dollars available relative to other monies; people will buy U.S. currency under the assumption that it will rise in value.

The finance ministers of the United States (represented by the Department of the Treasury), West Germany, France, Britain, and Japan recently agreed to intervene in foreign currency markets to devalue the U.S. dollar. More dollars will be made available relative to other currencies. This implies that the Fed will not act to bring monetary targets into stated ranges, but will allow the money supply to grow as necessary to lower the dollar's value. The success of the agreement will be judged by whether or not currency traders are convinced of its occurring. The Fed will, for all practical purposes, have switched its policy from controlling monetary aggregates to attempting the more difficult task of managing exchange rates.

Import legislation now proposed in Congress will almost certainly raise both the short- and long-term value of the U.S. dollar. Any attempt to restrict purchases overseas will reduce the supply of dollars abroad and raise their value. Second, the threat of trade wars, although serious for the United States, would be more disastrous for countries heavily dependent on trade. Loss of trade (both

exports and imports) translates directly into loss of income. Buying power declines and investment becomes less attractive. The United States, which still has a small trade sector compared with almost every other country, would likely reemerge as a relatively good investment opportunity. Capital inflow into this country would almost certainly drive the dollar higher.

Outlook for Fall and Winter

The direction of the U.S. dollar is dependent on whether the Federal Reserve replaces its stated targets on monetray growth with that of concentration on the dollar's foreign exchange value. Choice of the latter policy implies a dollar remaining between 2.6 and 2.8 marks for the rest of 1985. This year's end should see the mark near 2.65 per U.S. dollar. The yen will not fall beyond 240 per dollar, with 220 to 225 most likely by December 31. Weakening oil prices will almost certainly keep the British pound below \$1.40. Oil revenues are very important to the United Kingdom's external payments position.

U.S. agricultural exports can expect a slight boost from a sliding dollar. Protectionist sentiment could, however, reverse any gains to be had from a lower value of U.S. currency. [David Stallings (202) 786-1624]

Fertilizer

World Use and Assistance

Fertilizer has been a major contributor to increased world food production, particularly since World War II. In 1983/84, world fertilizer (nitrogen--N, phosphate--P₂O₅ and potash--K₂O) consumption was an estimated 125 million tons, up about 50 percent from a decade earlier. Increases were much more rapid in the developing countries than in the developed nations. However, for many people in the developing nations, food will remain scarce, particularly in Sub-Saharan Africa, where conditions have actually worsened in recent years.

Much of the difference in food production capability between developed and developing areas can be attributed to differences in fertilizer use and related modern

Fertilizer consumption and application rates 1/

| Economy | Consumption | | Rate 3/ | | |
|-------------------|---------------------|---------|-----------|------|------|
| | 1974 | 1984 2/ | Growth | 1974 | 1984 |
| | Million metric tons | Percent | Kilograms | | |
| Developed | 43.4 | 48 | 11 | 102 | 118 |
| Developing | 12.0 | 24 | 100 | 18 | 50 |
| Centrally planned | 28.2 | 53 | 88 | 68 | 122 |
| World | 83.6 | 125 | 50 | 55 | 80 |

1/ N, P₂O₅, K₂O; fertilizer year ending in year shown. 2/ Estimated. 3/ Application per arable hectare.

technological production practices. While the developing countries contain about 45 percent of the world's arable land, they used less than 20 percent of world fertilizer in 1983/84. The average commercial fertilizer application rate for arable land in 1983/84 was 118 kilograms per hectare in the developed economies, compared with 50 in the developing areas.

Use Gains Rapidly in Developing Areas

Fertilizer use in the developing economies doubled in the last 10 years, while it increased only 11 percent in the developed regions. Food and Agriculture Organization-World Bank-UNIDO forecasts indicate that in the next 10 years, fertilizer use in the developing areas is again expected to grow far faster than in developed areas, with a projected 70-percent increase. Even with the more rapid growth, per acre application rates projected for the developing nations in 1993/94 are still expected to be more than one-third below those in the developed and centrally planned economies.

Fertilizer Assistance Declining

World fertilizer aid to needy countries was over 1 million tons in 1982/83. At an f.o.b. price of about \$250 a ton, this is equivalent to about \$280 million. Fertilizer assistance in 1982/83, however, was less than 60 percent of the 1978/79 peak. Between 1974/75 and 1982/83, developed nations provided developing countries 12.5 million tons of fertilizer, either at no charge or on a delayed loan basis at subsidized prices and interest rates. Of the world fertilizer aid provided since 1974/75, slightly over half went to Africa, just over 40 percent to Asia, and less than 10 to Latin America.

World fertilizer aid to developing countries and shares

| Year | Aid | Share | | |
|---------------------|----------------------|---------------|------------------|--------------------|
| | | United States | Nether- lands | Other countries |
| | Thousand metric tons | Percent | | |
| 1974/75 | 1,469 | 33 | 24 | 43 |
| 1976/77 | 1,157 | 20 | 37 | 43 |
| 1978/79 | 1,971 | 19 | 43 | 38 |
| 1980/81 | 1,563 | 25 | 45 | 30 |
| 1982/83 | 1,122 | 19 | 47 | 34 |
| 1974/75- 1982/83 | 12,529 | 23 | 38 | 39 |

The United States is a major fertilizer aid contributor, surpassed only by the Netherlands. Since the FAO started maintaining fertilizer assistance records in 1974/75, the United States has averaged about 23 percent of fertilizer aid to developing countries and the Netherlands 38 percent. While world fertilizer assistance in the early 1980's was down from peak years in the late 1970's, U.S. assistance was up in 1983/84. [Theodore Eichers (202) 786-1461]

U.S. AGRICULTURAL TRADE

Prospects for U.S. agricultural trade in fiscal 1985 have deteriorated over recent months and are expected to decline further in 1986. In August, the forecast for 1985 farm product exports was lowered \$1.5 billion to \$32 billion, and the estimate for imports raised slightly to \$20 billion. If the \$32-billion and 129-million-ton forecasts for 1985 farm exports are realized, value and volume will be 16 percent and 10 percent lower, respectively, than in 1984.

The export picture in fiscal 1986 is not expected to improve as both volume and prices slip lower. Total foreign production of wheat and coarse grains rose in 1984/85, and is expected to increase again in 1985/86, by a smaller amount. Similarly, competitors' soybean production rose this year, while global imports fell for the third year in a row and are expected to improve only slightly in 1986. Foreign production of cotton also rose faster than import demand. As a result, export volume of each of the major U.S. export

commodities--wheat, coarse grains, soybeans, and cotton--is expected to fall below 1984. Coarse grain exports will suffer the smallest decline this year, largely because of record imports by the Soviet Union. However, Soviet and world demand for coarse grains is expected to slacken during 1986.

U.S. agricultural export volume 1/

| Commodity | 1982 | 1983 | 1984 | 1985 F |
|-------------------------------|-------|-------|-------|--------|
| Million metric tons | | | | |
| Wheat | 44.6 | 36.7 | 41.7 | 30.5 |
| Wheat flour | .7 | 1.5 | 1.1 | .9 |
| Coarse grains | 57.9 | 53.8 | 55.6 | 57.2 |
| Rice | 2.9 | 2.3 | 2.3 | 2.0 |
| Feeds and fodders | 6.0 | 7.0 | 6.8 | 6.5 |
| Soybeans | 25.5 | 24.5 | 19.2 | 16.6 |
| Soybean meal | 6.3 | 6.4 | 4.9 | 4.3 |
| Soybean oil | .9 | .9 | .8 | .7 |
| Other oilcake and meal | .3 | .2 | .2 | .1 |
| Sunflowerseed | 1.5 | 1.4 | 1.0 | 1.0 |
| Sunflowerseed oil | .1 | .2 | .2 | .1 |
| Cotton, incl. linters | 1.6 | 1.2 | 1.5 | 1.3 |
| Tobacco | .3 | .2 | .2 | .2 |
| Horticultural prod. | 3.1 | 3.0 | 2.9 | 2.7 |
| Beef, pork, and variety meats | .4 | .4 | .4 | .4 |
| Poultry meat | .3 | .3 | .2 | .2 |
| Animal fats | 1.5 | 1.4 | 1.4 | 1.1 |
| Other | 4.0 | 3.4 | 3.2 | 3.2 |
| Total | 157.9 | 144.8 | 143.6 | 129.0 |

1/ Fiscal year, actual export tonnages. Excludes animal numbers and some commodities reported in cases, pieces, dozens, liquid measures, etc.

F = forecast.

U.S. agricultural export values 1/

| Commodity | 1982 | 1983 | 1984 | 1985 F |
|--------------------------|------|------|------|--------|
| Billion dollars | | | | |
| Grains and feeds | 17.6 | 15.2 | 17.4 | 14.3 |
| Wheat and prod. | 7.7 | 6.2 | 6.8 | 4.9 |
| Rice | 1.1 | .9 | .9 | .7 |
| Feed grains and products | 7.0 | 6.6 | 8.2 | 7.2 |
| Oilseeds and prod. | 9.5 | 8.9 | 8.8 | 6.3 |
| Soybean cake and meal | 1.5 | 1.4 | 1.2 | .8 |
| Soybeans | 6.5 | 5.9 | 5.7 | 3.9 |
| Soybean oil | .5 | .5 | .6 | .5 |
| Livestock prod. | 3.2 | 3.0 | 3.5 | 3.3 |
| Poultry prod. | .6 | .5 | .4 | .4 |
| Dairy prod. | .4 | .4 | .4 | .4 |
| Horticultural prod. | 2.9 | 2.7 | 2.6 | 2.6 |
| Cotton, incl. linters | 2.2 | 1.7 | 2.4 | 2.0 |
| Tobacco | 1.5 | 1.5 | 1.4 | 1.5 |
| Other | 1.2 | .9 | 1.1 | 1.2 |
| Total | 39.1 | 34.8 | 38.0 | 32.0 |

1/ Fiscal year. F = forecast.

While increased foreign production has reduced demand for U.S. farm products, world economic conditions have also held down overseas domestic consumption and hindered the ability of many countries to import at all. Even in those countries with the strongest increases in GNP, increases in consumption and imports have not been particularly strong. Growth has been strongly export-led and did not increase domestic economic activity as much as it had in past recoveries. Also, less developed countries (LDCs) with both high and low growth rates continue to feel the dampening effects of the recent debt situation. In 1984, bank lending to LDCs posted a net decline as lending policies continued to tighten.

Devaluations, development scalebacks, and reduced government spending remain the order of the day across the Third World, reducing import demand and heightening price sensitivity, both to the detriment of U.S. agricultural exports. For example, in real terms, Latin America's imports of all goods in 1984 were smaller than in 1973. Elsewhere, attempts to promote U.S. agricultural exports through credit guarantees have met with mixed success as some customers seek to avoid further debt. In many cases, they have instead made noncredit purchases from competitors willing and able to undercut U.S. prices.

Although the world has largely recovered from recession in the past few years, economic conditions remain restrictive and continue to favor self-sufficiency through increased agricultural production and reduced imports. Until economic activity and liquidity improves, the outlook for U.S. agricultural exports is not good. [Stephen MacDonald (202) 786-1621]

WORLD COMMODITY DEVELOPMENTS

Wheat and Rice

World wheat and rice production in 1985/86 are each forecast to decline 1 percent from last year's record. However, production is still expected to outpace consumption, leading to further increases in ending stocks. World trade is forecast to fall more than 10 percent because of lower import demand. Prices are expected to remain low through the remainder of 1985/86.

Wheat: World production, consumption, and net exports

| Country | 1983/84 | | | 1984/85 | | | 1985/86 F | | |
|---------------------|---------|-------|---------|---------|-------|---------|-----------|-------|---------|
| | Prod. | Cons. | N. exp. | Prod. | Cons. | N. exp. | Prod. | Cons. | N. exp. |
| Million metric tons | | | | | | | | | |
| Major exporters | | | | | | | | | |
| United States | 65.9 | 30.2 | 38.7 | 70.6 | 31.4 | 37.9 | 65.3 | 30.2 | 31.4 |
| Canada | 26.6 | 5.8 | 21.9 | 21.2 | 5.5 | 19.4 | 22.0 | 5.5 | 16.5 |
| Australia | 21.8 | 2.6 | 11.6 | 18.6 | 3.0 | 16.7 | 16.0 | 3.0 | 15.2 |
| EC-10 | 59.2 | 49.5 | 11.2 | 76.4 | 53.1 | 15.2 | 68.6 | 53.2 | 14.1 |
| Argentina | 12.3 | 4.8 | 9.6 | 13.2 | 4.9 | 8.1 | 11.0 | 4.9 | 6.4 |
| Turkey | 13.3 | 13.8 | .3 | 13.3 | 13.7 | -.7 | 13.0 | 13.7 | -.4 |
| Major importers | | | | | | | | | |
| USSR | 79.0 | 99.0 | -20.0 | 73.0 | 98.5 | -27.0 | 83.0 | 99.0 | -18.0 |
| China | 81.4 | 91.0 | -9.6 | 87.8 | 95.2 | -7.4 | 87.0 | 94.0 | -7.0 |
| Eastern Europe | 35.4 | 37.1 | -1.5 | 41.6 | 40.3 | +1.4 | 37.8 | 38.4 | -1.1 |
| Other W. Europe | 8.8 | 9.7 | -.2 | 10.7 | 10.3 | +.5 | 9.7 | 9.7 | -.2 |
| Brazil | 2.1 | 6.4 | -3.9 | 1.9 | 6.4 | -5.4 | 2.9 | 6.5 | -4.0 |
| Mexico | 3.2 | 4.1 | -.6 | 4.2 | 4.4 | -.4 | 4.4 | 4.5 | -.3 |
| Other Latin Am. | 1.6 | 8.3 | -6.9 | 1.8 | 8.5 | -6.8 | 2.1 | 8.7 | -6.8 |
| Japan | .7 | 6.2 | -5.6 | .7 | 6.3 | -5.3 | .9 | 6.3 | -5.2 |
| India | 42.8 | 42.0 | -2.5 | 45.1 | 43.2 | +.2 | 45.0 | 43.0 | +1.4 |
| South Korea | .1 | 2.4 | -2.4 | -- | 3.0 | -3.1 | -- | 2.5 | -2.3 |
| Indonesia | -- | 1.6 | -1.6 | -- | 1.4 | -1.4 | -- | 1.4 | -1.2 |
| Other Asia | 18.1 | 23.9 | -6.8 | 16.8 | 25.1 | -8.0 | 17.5 | 25.1 | -8.1 |
| Egypt | 2.0 | 8.0 | -6.7 | 1.8 | 8.5 | -6.6 | 2.0 | 8.6 | -6.7 |
| Morocco | 2.0 | 4.1 | -2.1 | 2.0 | 4.1 | -2.0 | 1.8 | 4.1 | -2.3 |
| Other N. Afr./ME | 10.6 | 24.3 | -15.0 | 9.4 | 24.8 | -15.1 | 12.2 | 26.3 | -14.9 |
| Other Africa | 3.2 | 7.9 | -4.2 | 3.2 | 8.2 | -5.3 | 3.4 | 8.5 | -5.2 |
| Residual | .3 | 5.9 | -3.7 | .7 | 2.3 | -4.9 | .3 | 1.2 | -1.3 |
| World | 490.4 | 488.6 | | 514.0 | 502.1 | | 505.9 | 498.3 | |

Trade on July-June years. -- = negligible. F = forecast.

Rice: World production, consumption, and net exports

| Country | 1983/84 | | | 1984/85 | | | 1985/86 F | | |
|---------------------|---------|-------|---------|---------|-------|---------|-----------|-------|---------|
| | Prod. | Cons. | N. exp. | Prod. | Cons. | N. exp. | Prod. | Cons. | N. exp. |
| Million metric tons | | | | | | | | | |
| Major exporters | | | | | | | | | |
| United States | 3.2 | 1.8 | 2.1 | 4.3 | 1.9 | 1.9 | 4.1 | 1.9 | 1.8 |
| Thailand | 12.9 | 8.0 | 4.5 | 12.0 | 8.0 | 4.3 | 12.4 | 8.2 | 4.3 |
| Pakistan | 3.3 | 2.3 | 1.1 | 3.5 | 2.4 | .9 | 3.4 | 2.4 | 1.0 |
| China | 118.2 | 117.1 | 1.1 | 124.8 | 123.9 | .9 | 120.4 | 119.6 | .8 |
| India | 59.8 | 58.0 | -.5 | 59.5 | 58.3 | .2 | 60.0 | 58.8 | .2 |
| Burma | 9.0 | 8.2 | .8 | 9.3 | 8.8 | .5 | 9.1 | 8.5 | .6 |
| Japan | 9.4 | 10.2 | -.1 | 10.8 | 10.2 | 0 | 10.6 | 9.8 | 0 |
| Italy | .6 | .3 | .3 | .7 | .3 | .3 | .7 | .3 | .3 |
| Australia | .5 | .1 | .4 | .6 | .1 | .4 | .5 | .1 | .5 |
| Major importers | | | | | | | | | |
| Indonesia | 24.0 | 25.3 | -.4 | 25.8 | 25.1 | +.2 | 26.5 | 26.6 | +.2 |
| South Korea | 5.4 | 5.5 | +.1 | 5.7 | 5.7 | 0 | 5.4 | 5.6 | 0 |
| Bangladesh | 14.5 | 15.0 | -.6 | 14.5 | 14.9 | -.5 | 15.0 | 15.4 | -.3 |
| Vietnam | 9.1 | 9.3 | -.2 | 9.0 | 9.3 | -.4 | 9.1 | 9.5 | -.4 |
| Other Asia | 17.4 | 18.5 | -1.1 | 17.3 | 18.9 | -1.6 | 17.5 | 19.0 | -1.4 |
| USSR | 1.8 | 2.1 | -.4 | 1.8 | 2.1 | -.3 | 1.8 | 2.1 | -.3 |
| Brazil | 6.1 | 6.3 | -.3 | 6.1 | 6.3 | -.3 | 6.5 | 6.4 | -.1 |
| Other Latin Am. | 4.6 | 4.9 | 0 | 4.9 | 4.7 | 0 | 5.0 | 5.1 | -.2 |
| Iran | .9 | 1.7 | -.7 | .9 | 1.7 | -.8 | .9 | 1.7 | -.8 |
| Other N. Afr./ME | 1.9 | 3.6 | -1.8 | 1.8 | 3.7 | -1.8 | 1.9 | 3.9 | -1.9 |
| Malagasy | 1.4 | 1.5 | -.1 | 1.4 | 1.5 | -.1 | 1.4 | 1.5 | -.2 |
| Nigeria | .9 | 1.6 | -.4 | .9 | 1.5 | -.5 | 1.0 | 1.4 | -.5 |
| Other Africa | 1.7 | 3.7 | -2.1 | 1.9 | 3.9 | -2.0 | 2.0 | 4.1 | -2.2 |
| Residual | .6 | 2.3 | -1.7 | .6 | 1.5 | -1.3 | .5 | 2.9 | -1.4 |
| World | 307.2 | 307.3 | | 318.1 | 314.7 | | 315.7 | 314.8 | |

Trade on calendar years; calendar 1982 corresponds to 1981/82. F = forecast.

Wheat Output To Diminish

All the major wheat exporters, except Canada, are expected to have smaller 1985/86 crops. U.S. wheat output will likely be the lowest since 1980/81 due to dry weather in the Southeast and Northwest, and heavy participation in the Government's acreage reduction program. Persistent, and often heavy, rains across northwest Europe at harvesttime will reduce both wheat yields and protein levels in the EC. Great Britain was especially hard hit and may face a shortage of milling wheats but a greater supply of feed wheat. Australian production will likely be down from last year; extended dryness in some areas restricted planting to the lowest in 3 years. Dryness in Argentina during planting has also reduced area and yield prospects.

Canadian production is expected to be up only slightly from last year's depressed level as excellent yields in Manitoba and Quebec offset drought-reduced crops in southern Saskatchewan and Alberta. Production among the major importers may also increase, with the largest gain in the Soviet Union. The forecast 10-million-ton increase in Soviet output is the major factor behind reduced 1985/86 world trade.

Wheat Trade To Fall

World wheat trade, forecast at 93.5 million tons, is down 14.1 million from last year. All major exporters are having difficulty finding buyers. As of early September, EC export authorizations for 1985/86 were less than 200,000 tons, only 5 percent of the 3.8 million tons granted at the same time last year. Canadian exports are also running behind, and the St. Lawrence shipping industry has faced its worst crisis since the Seaway opened in 1959.

India has harvested another bumper wheat crop, and is seeking to export its surplus. A severe shortage of covered storage is prompting India to make at least 2 to 3 million tons available for export. Although about 500,000 tons have already been sold for 1985/86 shipment to the Soviet Union, Vietnam, and Romania, recent discussions with Pakistani and Soviet purchasing authorities have apparently been unsuccessful. India's problems in selling wheat include: high domestic support prices (around \$130 per ton),

lack of bulk handling facilities, and complaints from the Soviet Union about the quality of last year's shipments.

U.S. exports and outstanding sales as of mid-September were only 45 percent of last year's pace. The Soviet Union, which by mid-September last year had purchased more than 5 million tons, has thus far been absent from the U.S. market. Sales of Hard Red Winter and Soft Red Winter are down substantially, with Durum being the only class close to last year's shipments. As a result, U.S. 1985/86 exports are forecast at 31.5 million tons, down 6.6 million from last year and the lowest since 1977.

Rice Output and Trade To Decline

Global 1985/86 rice production is forecast at 316 million tons, down 2 million from last year's record. China's production is expected to drop 4 million tons, largely because of a 3-percent decline in planted area. The dramatic price reform program announced last October has reduced the price incentives for rice farmers to produce above their contracted amounts and eliminated the Government's guarantee to buy all rice offered for sale.

Declining import demand has depressed global rice trade in calendar 1985 more than 1 million tons from 1984. During first-half 1985, aggressive pricing allowed Thailand to capture some of the lower quality market from Pakistan and Burma. Pakistan and Burma, however, lowered their prices during the summer to meet the competition. Rice prices this fall will probably decline even further as many smaller exporters also seek international outlets.

The United States has struggled in recent years to maintain commercial sales in the face of excess world production and uncompetitive prices. U.S. exports have been aided this year by increased funding for the P.L. 480 program, the CCC drought-relief program for Africa, and continued GSM-102 credit for Iraq and Portugal. U.S. rice exports in 1985 are forecast at 2.0 million tons, down 6 percent from 1984. [Scott R. Reynolds (202) 786-1691]

Coarse Grains

In 1984/85, global coarse grain production surpassed 800 million tons for the first time. Riding the crest of improved crops in several countries, and near-record harvests in others, 1985/86 production is forecast to be almost 840 million. Import demand will diminish, as output improves in several major importing countries, and competition among exporting nations will continue to be keen. As a result, coarse grain prices (corn and sorghum in particular) are forecast to remain low.

Global Production Continues High

Coarse grain production rose to 806 million tons in 1984/85, as significant gains were noted throughout Western and Eastern Europe, and China set a record. Major foreign exporter production continues strong in 1985/86, at 65 million tons. Much of the global gain will come from record U.S. output. The midsummer's hot, dry weather, in contrast, cut Canadian barley yields.

Production by the major importers in 1985/86 appears to have the potential to match 1984/85's 279 million tons, despite a sharp drop in the expected East European crop. EC output in 1984/85 was bolstered by both the yield-enhancing impacts of improved technology and ideal weather. Another excellent crop is forecast in spite of heavy late-season rains that have hampered harvesting. Production in China is again large, though yield and area estimates are down from 1984/85.

An improved Soviet crop is the major difference in the 1985/86 production and trade outlook. The crop is forecast at 95 million tons, up 9 million from the year before. The last time the USSR coarse grain crop was this high was 1983/84, when total grain production reached 190 million tons. This large a crop this year will significantly reduce the Soviet's grain purchases, especially from the United States.

Near-Record Stocks

Although ending stocks were reduced in 1983, the world continues to produce much more coarse grain than it consumes and, therefore, stocks continue to rise. In 1985/86 alone, the surplus is forecast to be about 45

million tons. As in the past, the United States is likely to carry most of the increase. For example, U.S. corn stocks during the year may skyrocket more than 100 percent.

The large world outturn and stocks are likely to continue to pressure global prices. While depressing news to exporters, lower prices improve the ability of some nations to increase their imports. However, improved crop conditions in some major importing countries will lead to expanded use of their own feed grains, thereby reducing import needs.

Import Demand Falls

World import demand for coarse grains peaked at 108 million tons in 1980/81, and fell to under 90 million 2 years later. Although it temporarily reached over 102 million tons in 1984/85, the gain was dominated by record-setting purchases of 28 million tons by the Soviet Union. China's imports this year have remained extremely low, while EC imports have fallen about one-third.

In 1985/86, global imports are forecast under 94 million tons, principally the result of an 11-million-ton reduction in Soviet imports. Diminished import demand in Western Europe and a sluggish Japanese corn market are also contributing factors.

U.S. Trade Hurt Worst

Many of the coarse grain production shortfalls in the major foreign countries during the 1980's have been short-term problems, such as bad weather. In years of production shortfalls, much of the increased import demand comes to the United States. The improved production prospects worldwide in 1985/86 indicate potential losses in U.S. sales.

U.S. sales to the Soviet Union are likely to fall substantially in 1985/86. This, combined with a slowdown in sales of U.S. corn and sorghum to some other major importing countries, will diminish U.S. export prospects. U.S. corn sales may account for about only 68 percent of world trade in corn, compared with 75 percent in the early 1980's. The U.S. share of the sorghum market, however, may actually improve from under 50 percent in the early 1980's to 58 percent in

Coarse grains: World production, consumption, and net exports

| Country | 1983/84 | | | 1984/85 | | | 1985/86 F | | |
|---------------------|---------|-------|---------|---------|-------|---------|-----------|-------|---------|
| | Prod. | Cons. | N. exp. | Prod. | Cons. | N. exp. | Prod. | Cons. | N. exp. |
| Million metric tons | | | | | | | | | |
| Major exporters | | | | | | | | | |
| United States | 137.1 | 147.8 | 55.2 | 237.1 | 164.4 | 54.8 | 265.4 | 170.9 | 49.2 |
| Canada | 21.0 | 18.9 | 5.2 | 21.9 | 18.7 | 3.0 | 23.5 | 19.0 | 4.6 |
| Australia | 9.4 | 3.0 | 5.5 | 8.0 | 2.3 | 6.8 | 7.7 | 2.9 | 4.9 |
| Argentina | 17.4 | 7.6 | 10.9 | 19.4 | 7.5 | 11.7 | 19.3 | 7.0 | 11.7 |
| Thailand | 4.2 | 1.3 | 3.3 | 4.9 | 1.3 | 3.6 | 5.6 | 1.6 | 4.0 |
| South Africa | 5.1 | 7.1 | -2.8 | 8.0 | 7.2 | -.8 | 8.9 | 7.8 | .5 |
| Major importers | | | | | | | | | |
| USSR | 99.0 | 110.5 | -11.9 | 86.0 | 112.0 | -28.0 | 95.0 | 111.0 | -17.0 |
| China | 92.7 | 92.6 | -.2 | 96.4 | 92.0 | +5.0 | 92.0 | 88.6 | +3.8 |
| Eastern Europe | 67.1 | 68.5 | -1.2 | 73.6 | 72.8 | +.1 | 65.4 | 68.7 | -1.4 |
| EC-10 | 64.1 | 68.0 | -1.4 | 74.8 | 67.6 | +3.6 | 73.0 | 68.8 | +4.2 |
| Other W. Europe | 22.1 | 30.7 | -6.6 | 28.6 | 30.6 | -3.7 | 28.3 | 31.3 | -3.0 |
| Brazil | 21.5 | 21.4 | -.2 | 21.0 | 21.2 | -.4 | 22.1 | 22.0 | -.3 |
| Mexico | 13.8 | 18.4 | -5.9 | 14.3 | 18.8 | -4.5 | 14.6 | 19.3 | -4.6 |
| Venezuela | .8 | 2.4 | -1.6 | 1.0 | 2.6 | -1.8 | 1.7 | 2.9 | -1.2 |
| Other Latin Am. | 7.7 | 9.7 | -1.9 | 8.6 | 10.4 | -2.6 | 8.7 | 10.7 | -1.9 |
| Japan | .4 | 20.5 | -20.7 | .4 | 21.1 | -20.6 | .4 | 21.3 | -21.5 |
| Taiwan | .2 | 4.4 | -4.0 | .3 | 4.7 | -4.4 | .3 | 4.5 | -4.2 |
| South Korea | .9 | 4.7 | -4.1 | .9 | 4.6 | -3.3 | .7 | 5.0 | -4.0 |
| Other Asia | 49.5 | 51.0 | -1.7 | 47.1 | 50.0 | -2.6 | 48.6 | 50.9 | -2.2 |
| Egypt | 4.3 | 5.8 | -1.5 | 4.6 | 6.3 | -1.8 | 4.9 | 6.7 | -1.9 |
| Iran | 1.5 | 2.6 | -1.2 | 1.3 | 2.7 | -1.6 | 1.3 | 2.8 | -1.7 |
| Israel | --- | 1.2 | -1.1 | .1 | 1.1 | -1.0 | .1 | 1.4 | -1.3 |
| Other N. Afr./ME | 15.0 | 25.1 | -10.6 | 14.0 | 22.9 | -10.2 | 16.7 | 28.2 | -11.2 |
| Other Africa | 30.0 | 31.6 | -1.3 | 32.8 | 34.2 | -1.6 | 34.9 | 37.1 | -2.4 |
| Residual | .8 | 4.0 | -2 | 1.0 | 3.7 | -.7 | .7 | 4.9 | -3.1 |
| World | 685.6 | 758.8 | | 806.4 | 780.7 | | 839.8 | 795.3 | |

Production on crop year basis, trade on October-September year. Includes corn, barley, sorghum, oats, millet, rye, and miscellaneous grains. --- = negligible. F = forecast.

International commodity prices

| Year | Wheat | | | | Corn | | Soybeans | | Soyoil | | Soymeal 44% | |
|------------------------|---------|---------|---------|----------|---------|---------|----------|---------|---------|------------|-------------|------------|
| | U.S. 1/ | Arg. 2/ | Can. 3/ | Aust. 4/ | U.S. 5/ | Arg. 2/ | U.S. 6/ | U.S. 7/ | U.S. 7/ | Hamburg 8/ | U.S. 7/ | Hamburg 8/ |
| Dollars per metric ton | | | | | | | | | | | | |
| 1975 | 149 | 147 | 181 | 167 | 122 | 126 | 210 | 559 | 141 | 162 | | |
| 1976 | 134 | 128 | 149 | 147 | 115 | 114 | 223 | 414 | 179 | 203 | | |
| 1977 | 105 | 100 | 116 | 113 | 98 | 93 | 271 | 524 | 212 | 240 | | |
| 1978 | 131 | 126 | 134 | 119 | 105 | 102 | 259 | 565 | 189 | 226 | | |
| 1979 | 162 | 159 | 171 | 142 | 118 | 117 | 278 | 610 | 160 | 254 | | |
| 1980 | 176 | 203 | 192 | 175 | 129 | 159 | 272 | 522 | 217 | 271 | | |
| 1981 | 176 | 190 | 194 | 175 | 135 | 139 | 272 | 464 | 223 | 269 | | |
| 1982 | 161 | 166 | 165 | 160 | 110 | 109 | 233 | 404 | 197 | 233 | | |
| 1983 | 158 | 138 | 167 | 161 | 137 | 133 | 269 | 518 | 222 | 255 | | |
| 1984 | 153 | 135 | 166 | 153 | 138 | 132 | 271 | 678 | 184 | 210 | | |
| 1985 | | | | | | | | | | | | |
| Jan. | 149 | 110 | 164 | 153 | 121 | 108 | 231 | 633 | 150 | 175 | | |
| Feb. | 148 | 111 | 164 | 150 | 120 | 106 | 228 | 649 | 139 | 163 | | |
| Mar. | 146 | 114 | 164 | 149 | 122 | 109 | 231 | 691 | 139 | 171 | | |
| Apr. | 146 | 113 | 174 | 148 | 122 | 110 | 231 | 751 | 130 | 174 | | |
| May | 139 | 112 | 172 | 145 | 118 | 109 | 222 | 715 | 123 | 165 | | |
| June | 134 | 107 | 173 | 141 | 117 | 111 | 222 | 715 | 122 | 158 | | |
| July | 130 | 107 | 171 | 134 | 117 | 112 | 215 | 636 | 128 | 159 | | |
| Aug. 9/ | 125 | 99 | 159 | 127 | 106 | 113 | 203 | 521 | 134 | 159 | | |

1/ No. 2 hard winter, ordinary protein, f.o.b. Gulf ports. 2/ F.o.b. Buenos Aires. 3/ No. 1 western red spring, 13.5% protein, in store Thunder Bay. 4/ July-June crop year, standard white, f.o.b. selling price. 5/ U.S. No. 2 yellow, f.o.b. Gulf ports. 6/ No. 3 yellow, f.o.b. Gulf ports. 7/ Decatur. 8/ F.o.b. ex-mill. 9/ Preliminary.

1985/86--largely the result of expected Japanese purchases. [James E. Cole (202) 786-1691]

Oilseeds

The 1985/86 oilseeds outlook is for a 4-percent gain in production and a small rise in use. Therefore, world oilseed stocks will rise sharply and further depress market prices. U.S. soybean stocks will reach a record 15 million tons.

Six million tons (nearly 80 percent) of the expected rise in oilseed production is in soybeans, with most of the gain in the United States. Despite a sharp reduction in area planted, excellent yields are producing a bumper U.S. soybean crop. Planting decisions for the 1985/86 Brazilian soybean crop will take into account two Government policies, production financing arrangements and minimum guaranteed prices. The announced production financing appears to favor corn and rice at the expense of soybeans, as the Brazilian Government seeks to reduce domestic food price inflation. On the other hand, minimum price guarantees favor soybeans. Projections for 1985/86 point to a slight decline in Brazil's soybean area and a 600,000-ton drop in output.

Other Oilseeds Will Rise Sharply

The combined production of rapeseed, sunflowerseed, and peanuts in 1985/86 is likely to rise 6 percent from 1984/85. Between 1981/82 and 1984/85, rapeseed output expanded nearly 4 million tons because of large gains in area in the EC and Eastern Europe. In 1985/86, rapeseed output could rise another 1.3 million tons. Part of this gain is due to China's new policy that encourages rapeseed production. EC production will also rise. Peanut output could improve in Africa, with most of the gain in South Africa. Argentina may dedicate more area to sunflowerseed next year, but yields may not reach 1984/85's record.

Limited Growth in Meal Use

World soybean meal demand will rise only 3 percent in 1985/86. In Western Europe, slow economic growth will limit gains in livestock production and the EC supply control policy instituted last year will cut milk production

further. Use of other protein feeds--rapeseed meal, sunflowerseed meal, and field peas--will rise. Thus, the EC market for soybean meal use is not expected to rise significantly. Price ratios for soybean meal relative to corn indicate soybean meal use is cost effective. Nevertheless, slow livestock growth and ample domestic feed supplies should limit soybean meal use.

With Spain's accession to the EC, the levies on imported soybean meal will be eliminated. Soybean meal imports should remain high. This, and little gain in livestock output will keep soybean imports in 1985/86 at the same level as last year.

U.S. Customers Diversify

In Asia, Japan's soybean imports in 1985/86 may gain only slightly, as more Canadian rapeseed is imported. Last year, Japan diversified its purchases of soybeans by taking more from South America and China. Part of this change may reflect Japanese disappointment with U.S. soybean quality in 1984/85. Other Asian markets are also attempting to diversify sources of supply: Taiwan from Paraguay and Uruguay, Indonesia and the Philippines from China.

In 1984/85, China's soybean exports are forecast at 1 million tons. Almost 450,000 tons could have been shipped to the USSR under the Sino-Soviet trade protocol. The USSR also purchased nearly 400,000 tons of soybeans from Argentina during April-July 1985, almost fulfilling their bilateral agreement level.

South American Crop Key to U.S. Trade

World soybean imports are likely to increase less than 1 million tons in 1985/86, up slightly from 1984/85, but still nearly 3 million tons below 1982/83. However, U.S. exports could expand nearly 2 million tons mostly because of an expected drop in competitors' exports. For October-September 1985/86, Brazil and Argentina are likely to export 1 million tons less because of lower production and suspension of export registrations by Brazil. Argentina will likely expand exports of soybean meal and oil rather than soybeans to utilize recently expanded crushing capacity. Over the past 2 crop years, U.S. soybean exports fell sharply because of weak foreign

Soybeans and products: World production, consumption, and net exports

| Country | 1983/84 | | | 1984/85 | | | 1985/86 F | | |
|---------------------|---------|-------|---------|---------|-------|---------|-----------|-------|---------|
| | Prod. | Cons. | N. exp. | Prod. | Cons. | N. exp. | Prod. | Cons. | N. exp. |
| Million metric tons | | | | | | | | | |
| Soybeans | | | | | | | | | |
| Major exporters | | | | | | | | | |
| U.S. | 44.52 | 26.75 | 20.21 | 50.64 | 28.11 | 16.33 | 56.14 | 28.85 | 18.3 |
| Brazil | 15.20 | 12.51 | 1.59 | 17.00 | 12.50 | 3.33 | 16.40 | 13.00 | 2.5 |
| Argentina | 7.00 | 2.98 | 2.97 | 6.50 | 3.60 | 3.00 | 7.00 | 3.70 | 2.7 |
| China | 9.76 | 1.67 | .73 | 9.70 | 1.60 | 1.00 | 10.00 | 1.67 | .9 |
| Major importers | | | | | | | | | |
| EC-10 | .09 | 9.15 | -9.31 | .14 | 9.24 | -9.51 | .29 | 9.61 | -9.9 |
| Japan | .22 | 3.83 | -4.73 | .24 | 3.80 | -4.70 | .22 | 3.97 | -4.7 |
| Spain | 0 | 2.60 | -2.60 | .01 | 2.00 | -2.00 | .01 | 2.00 | -2.0 |
| Eastern Europe | .61 | 1.36 | -.84 | .78 | 1.35 | -.69 | .61 | 1.29 | -.7 |
| Mexico | .60 | 1.95 | -1.44 | .55 | 2.00 | -1.55 | .65 | 2.10 | 1.5 |
| Taiwan | .01 | 1.15 | -1.36 | .01 | 1.15 | -1.40 | .02 | 1.15 | -1.4 |
| USSR | .56 | 1.30 | -.95 | .43 | 1.09 | -.85 | .53 | 1.18 | -.8 |
| Residual | 3.99 | 5.38 | -4.27 | 4.88 | 5.95 | -2.96 | 5.24 | 6.21 | -3.3 |
| World | 82.56 | 70.63 | | 90.88 | 72.39 | | 97.11 | 74.73 | |
| Soybean meal | | | | | | | | | |
| Major exporters | | | | | | | | | |
| U.S. | 20.65 | 15.98 | 4.86 | 22.34 | 17.73 | 4.35 | 22.72 | 18.33 | 4.3 |
| Brazil | 9.70 | 1.69 | 7.71 | 9.70 | 1.80 | 8.20 | 10.08 | 2.00 | 8.0 |
| Argentina | 2.37 | .14 | 2.12 | 2.87 | .17 | 2.56 | 2.92 | .20 | 2.7 |
| Major importers | | | | | | | | | |
| EC-10 | 7.30 | 14.61 | -7.10 | 7.38 | 14.31 | -6.99 | 7.65 | 14.31 | -6.6 |
| Eastern Europe | 1.07 | 4.54 | -3.51 | 1.07 | 4.30 | -3.24 | 1.02 | 4.34 | -3.3 |
| USSR | .99 | 1.54 | -.55 | .83 | 1.43 | -.60 | .90 | 1.50 | -.6 |
| Japan | 2.96 | 3.03 | -.18 | 2.93 | 3.07 | -.06 | 3.06 | 3.16 | -.0 |
| Mexico | 1.42 | 1.44 | -.05 | 1.46 | 1.50 | -.10 | 1.53 | 1.54 | -.0 |
| Residual | 8.65 | 12.26 | -3.30 | 8.56 | 12.86 | -4.12 | 8.90 | 13.28 | -4.4 |
| World | 55.11 | 55.23 | | 57.14 | 57.17 | | 58.78 | 58.66 | |
| Soybean oil | | | | | | | | | |
| Major exporters | | | | | | | | | |
| U.S. | 4.93 | 4.35 | .83 | 5.22 | 4.45 | .77 | 5.24 | 4.51 | .6 |
| Brazil | 2.35 | 1.52 | .94 | 2.34 | 1.49 | .85 | 2.44 | 1.53 | .8 |
| Argentina | .49 | .07 | .43 | .59 | .07 | .50 | .61 | .08 | .5 |
| EC-10 | 1.64 | 1.29 | .41 | 1.64 | 1.23 | .40 | 1.70 | 1.33 | .3 |
| Spain | .46 | .02 | .54 | .35 | .02 | .31 | .35 | .02 | .3 |
| Major importers | | | | | | | | | |
| India | .09 | .80 | -.81 | .12 | .62 | -.40 | .13 | .58 | -.4 |
| Pakistan | 0 | .28 | -.30 | 0 | .25 | -.23 | 0 | .26 | -.2 |
| Eastern Europe | .24 | .41 | -.18 | .23 | .39 | -.16 | .23 | .36 | -.1 |
| Iran | .02 | .32 | -.32 | .02 | .34 | -.34 | .02 | .36 | -.3 |
| Morocco | .01 | .14 | -.13 | .01 | .18 | -.16 | .01 | .16 | -.1 |
| Residual | 2.51 | 3.80 | -1.41 | 2.54 | 3.97 | -1.54 | 2.63 | 4.05 | -1.3 |
| World | 12.74 | 13.00 | | 13.06 | 13.01 | | 13.36 | 13.24 | |

For soybeans, consumption refers to crush. Trade and consumption on marketing year except for Brazil and Argentina which are on an October-September year. F = forecast.

demand and large gains in South American exports. In 1984/85, South American exports rose 2 million tons, while U.S. exports plummeted 4 million.

Vegetable Oil Supplies Improve

The relatively tight supplies that have dominated the world vegetable oil market since 1983 will probably ease somewhat. Recovery in palm oil production and record world oilseed crops are contributing factors. India may limit its imports of vegetable oils, because domestic supplies have increased. U.S. stocks, however, are expected to remain

relatively tight. Last year's domestic crush was limited by the weak demand for soybean meal. Unless this situation changes, the disparity between world and U.S. vegetable oil prices will remain. U.S. prices have dropped in recent weeks in accord with the precipitous drop in world prices, but remain above world levels. [Jan A. Lipson (202) 786-1691]

Meat

World meat production may gain only minimally in 1986, after rising 2 percent this year. Reduced import demand for poultry,

cattle herd rebuilding, and small growth in red meat demand will keep growth in foreign production below 1985's expected gains. U.S. red meat production is likely to be down in 1985, but poultry meat increases will keep total output about the same as last year. In 1986, however, red meat output is forecast to drop even further and substantial gains in poultry meat will not be sufficient to keep total U.S. production up.

Beef Output To Dip

Cattle herds are contracting this year in Europe, the USSR, and North America. Beef and veal production in 1985 is expected to gain almost 2 percent in the major foreign producing countries, but decline in 1986 mainly because of reduced EC output.

Slaughter has been exceptionally high in the EC for the past 2 years as the EC reduces its dairy cow herd to bring down milk surpluses. As a result, EC beef production rose sharply, and stocks reached 974,000 tons by the beginning of 1985.

Australia and New Zealand have begun to rebuild their cattle herds. However, dry conditions in Queensland (Australia) have increased slaughter above previous estimates. Beef output is up in New Zealand as the herd expands, and returns favor beef production over sheep. Also, while pasture conditions have been generally favorable, drought in the eastern region has led to some early slaughter. In the Soviet Union, herd growth will likely stall this year, mainly because of

last winter's severe weather, which resulted in a tight feed situation and heavier slaughter of less productive cattle. Feed supplies should improve in 1985/86.

Pork Output Continues To Gain

Hog inventories are increasing in Western Europe, but drawdowns are likely in China, Eastern Europe, and the USSR. Foreign output of pork is rising in 1985 and is forecast to continue up in 1986. Major increases are expected in China and the EC.

In an effort to reform prices and increase pig-raising incentives, China abolished the State pork marketing monopoly on January 1, 1985. Production continues high during 1985, but the rate of increase should slacken next year as herds are rebuilt.

In the EC, lower feed prices have made the hog/feed price ratio more favorable. However, sluggish economic growth could limit gains in demand.

A tight feed situation is prompting a contraction in USSR hog inventories and pork output this year. A modest increase is possible next year if feed supplies improve as expected.

The imposition of U.S. countervailing duties against imports of Canadian live hogs could cause Canada to shift to greater pork output for export. It remains to be seen what longer term adjustments this will cause in the Canadian hog industry.

Beef and veal production

| Country | 1983 | 1984 | 1985 P | 1986 F |
|----------------------|--------|--------|--------|--------|
| Thousand metric tons | | | | |
| United States | 10,748 | 10,928 | 10,883 | 10,147 |
| Canada | 1,036 | 997 | 990 | 955 |
| Mexico | 1,229 | 1,323 | 1,379 | 1,423 |
| Argentina | 2,384 | 2,570 | 2,700 | 2,600 |
| Brazil | 2,400 | 2,300 | 2,400 | 2,500 |
| France | 1,764 | 1,936 | 1,830 | 1,654 |
| Germany, Fed. Rep. | 1,487 | 1,609 | 1,655 | 1,620 |
| Italy | 1,149 | 1,182 | 1,205 | 1,170 |
| Total EC-10 | 6,849 | 7,400 | 7,312 | 6,937 |
| Eastern Europe | 2,474 | 2,504 | 2,468 | 2,452 |
| USSR | 7,011 | 7,200 | 7,400 | 7,500 |
| Australia | 1,412 | 1,248 | 1,334 | 1,371 |
| Other | 5,564 | 5,499 | 5,601 | 5,596 |
| Total | 41,107 | 41,969 | 42,467 | 41,481 |

P = preliminary. F = forecast.

Pork production

| Country | 1983 | 1984 | 1985 P | 1986 F |
|----------------------|--------|--------|--------|--------|
| Thousand metric tons | | | | |
| United States | 6,894 | 6,719 | 6,709 | 6,558 |
| Canada | 852 | 863 | 875 | 900 |
| Mexico | 1,136 | 942 | 864 | 915 |
| Germany, Fed. Rep. | 2,731 | 2,744 | 2,785 | 2,870 |
| France | 1,624 | 1,625 | 1,640 | 1,635 |
| Netherlands | 1,201 | 1,258 | 1,340 | 1,375 |
| Total EC-10 | 9,705 | 9,774 | 10,049 | 10,210 |
| Eastern Europe | 6,632 | 6,682 | 6,650 | 6,680 |
| USSR | 5,760 | 5,800 | 5,600 | 5,750 |
| China | 13,161 | 14,450 | 15,510 | 15,840 |
| Japan | 1,429 | 1,430 | 1,485 | 1,470 |
| Other | 5,230 | 5,133 | 5,217 | 5,277 |
| Total | 50,799 | 51,793 | 52,959 | 53,600 |

P = preliminary. F = forecast.

Poultry production

| Country | 1983 | 1984 | 1985 P | 1986 F |
|----------------------|--------|--------|--------|--------|
| Thousand metric tons | | | | |
| United States | 7,151 | 7,435 | 7,749 | 8,101 |
| Canada | 537 | 558 | 587 | 587 |
| Mexico | 538 | 646 | 681 | 623 |
| Brazil | 1,580 | 1,398 | 1,470 | 1,490 |
| France | 1,284 | 1,247 | 1,245 | 1,250 |
| Total EC-10 | 4,293 | 4,261 | 4,281 | 4,325 |
| Eastern Europe | 1,846 | 1,966 | 2,001 | 2,056 |
| USSR | 2,596 | 2,635 | 2,700 | 2,800 |
| Japan | 1,257 | 1,330 | 1,373 | 1,398 |
| Other | 3,669 | 3,836 | 3,965 | 4,051 |
| Total | 23,467 | 24,065 | 24,807 | 25,431 |

P = preliminary. F = forecast.

Trade Prospects Slow Growth in Poultry

Poultry meat output continues to gain, although a slower pace is expected in 1986. Increasing output in the major importing countries has cut into export growth prospects for Brazil, France, and Hungary. Growing internal consumption, however, has helped some countries keep output from falling as it did last year. Nevertheless, the days of bounding growth in broiler exports seem to be over.

Thailand, whose commercial broiler industry is relatively recent, continues to expand output and exports to Japan. Production could reach 430,000 tons in 1985, 7 percent over last year. Exports accounted for 16 percent of production in 1984 and are forecast to continue to expand next year. [Linda M. Bailey (202) 786-1691]

Cotton

Weak Prices Do Little To Hinder Output

International cotton prices, as measured by the "A" Index, are the lowest in 7 years, yet global production shows few signs of correcting its severe supply imbalance. Lint output is forecast at almost 80 million bales, down 6.5 million from 1984/85's record, but still 8 million above mill use.

U.S. harvested acreage will remain virtually unchanged from 1984/85, but record yields may lead to a 700,000-bale gain. Foreign production outside China may be down

2 percent, as gains in the USSR, Egypt, Greece, and Syria fail to offset forecast declines for Pakistan, Brazil, and Turkey.

The sharpest decline will come in China, primarily because of a new cotton procurement policy. Last year's enormous crop necessitated large government purchases. Thus, procurements have been limited to 19.5 million bales this year. However, a 22.5-million-bale crop is anticipated as returns from cotton are still more lucrative than those of competing crops.

Cotton Consumption To Show Modest Gain

Low cotton prices and foreign government favoritism towards value-added textile exports, especially in debtor nations, are promoting increased textile production. However, a downturn of economic growth in major cotton importing countries will limit mill use. Mill use may expand more than 2.3 percent, with foreign growth of 2.7 percent offsetting a 2-percent decline in the United States. Lower U.S. mill use is due primarily to an expected 6-percent growth in textile imports.

Cotton consumption in many countries is being spurred by a need to generate foreign exchange via textile exports to pay off large debt holdings. Textile exports have become a major proportion of total exports in several countries. In 1984, textiles made up 46 percent of Pakistan's total exports, 19 percent in Turkey, and 17 percent in China.

In contrast, textiles' share of total export earnings have been falling since the mid-1970's in the East Asian countries. As these economies have diversified, labor-intensive industries, such as textiles, become less important. This diversification and lower world GNP growth are the main factors behind the forecast of less than 1-percent growth in cotton consumption in East Asia. Hong Kong, South Korea, Taiwan, and Japan export high-quality textile products, which are more susceptible to changes in world income. Turkey and Pakistan, on the other hand, are usually associated with lower quality and less expensive textile exports, which have less demand volatility.

Trade Volume Down

Total cotton exports are expected to be lowered 200,000 bales in 1985/86 to 20.3 million. The United States will post the largest decline with a drop of 2.2 million bales. Thus, there is a projected 2-million-bale increase in foreign exports, mainly by Australia, China, the USSR, Brazil, and Pakistan.

Australia may nearly double exports because of its highly competitive prices and types of raw cotton offered. Proximity to major raw cotton importers and a favorable exchange rate are also advantages.

USSR exports are expected to recover from their most dismal year since 1971/72. Export estimates of 3.4 million bales, however, are contingent on an outturn of 12.5 million bales and competitive prices.

U.S. Cotton Prices Hamper Exports

Since March 1985, the widening gap between U.S. and international cotton prices has steadily eroded the U.S. share of the world market. Last February, the spread between California-Arizona and Memphis Territory growths and the "A" Index was about 2.5 cents per pound, close to the 5-year average. In

March, the "A" Index fell almost 3 cents, while U.S. cotton rose 2 cents leaving a 7-cent gap, or nearly double the 5-year average difference. Another 2.5 cents were added in April as international prices dropped 1 cent and U.S. prices strengthened 2 cents. Since 1980/81, the price gap has averaged only 4.5 cents per pound in April. The 8- to 9.5-cent spread was maintained during the last quarter of the marketing year and has widened about 2 cents since. U.S. prices are sitting on the loan rate when transportation and storage costs are considered. This is the only factor supporting such a divergence from world prices.

U.S. exports during the first 7 months of the 1984/85 marketing year were above the 1970-1983 monthly export average. March was the first month to drop below the 13-year average and exports have remained below since. The last quarter of the marketing year accounted for 24 percent of annual exports during 1970-73, but only 18 percent in 1984/85. This slowdown does not bode well for the 1985/86 season, since U.S. prices remain well above competitors' prices.

Stocks To Build

World beginning stocks of more than 40 million bales are expected to mount to an estimated 47 million by the end of the current

Cotton: World production, consumption, and net exports

| Country | 1983/84 | | | 1984/85 | | | 1985/86 F | | |
|------------------------|---------|-------|---------|---------|-------|---------|-----------|-------|---------|
| | Prod. | Cons. | N. exp. | Prod. | Cons. | N. exp. | Prod. | Cons. | N. exp. |
| Million 480-lb. bales | | | | | | | | | |
| Major exporters | | | | | | | | | |
| United States | 7.8 | 5.9 | 6.8 | 13.0 | 5.5 | 6.2 | 13.7 | 5.4 | 4.0 |
| USSR | 12.3 | 9.3 | 2.7 | 11.7 | 9.5 | 2.2 | 12.5 | 9.7 | 2.7 |
| Pakistan | 2.2 | 2.0 | --- | 4.6 | 4.6 | 1.2 | 3.9 | 2.4 | 1.3 |
| Egypt | 1.9 | 1.3 | .8 | 1.8 | 1.4 | .5 | 2.3 | 1.6 | .6 |
| Turkey | 2.4 | 1.8 | .5 | 2.7 | 1.8 | .6 | 2.4 | 2.0 | .6 |
| Central America | .5 | .1 | .6 | .7 | .2 | .5 | .7 | .2 | .6 |
| Sudan | 1.0 | .1 | 1.1 | .9 | .1 | .8 | 1.0 | .1 | .9 |
| Brazil | 2.6 | 2.4 | --- | 4.2 | 2.7 | .5 | 3.2 | 2.7 | .4 |
| Mexico | 1.0 | .5 | .5 | 1.2 | .6 | .6 | .9 | .6 | --- |
| India | 6.1 | 6.5 | .3 | 7.0 | 6.9 | .2 | 22.5 | 17.0 | 1.4 |
| China | 21.3 | 16.0 | .6 | 28.7 | 16.5 | 1.1 | | | |
| Major importers | | | | | | | | | |
| Western Europe | .8 | 5.7 | -4.7 | .9 | 5.8 | -4.7 | 1.1 | 5.8 | -4.7 |
| Japan | 0 | 3.3 | -3.3 | 0 | 3.1 | -3.1 | 0 | 3.1 | -3.1 |
| Eastern Europe | .1 | 3.5 | -3.3 | .1 | 3.5 | -3.5 | .1 | 3.6 | -3.6 |
| South Korea | --- | 1.6 | -1.6 | --- | 1.6 | -1.6 | --- | 1.7 | -1.6 |
| Taiwan | 0 | 1.2 | -1.2 | 0 | 1.2 | -1.2 | 0 | 1.2 | -1.2 |
| Hong Kong | 0 | .8 | -.8 | 0 | .7 | -.8 | 0 | .8 | -.8 |
| Residual | 7.9 | 6.6 | +1.0 | 8.7 | 6.6 | +.5 | 8.4 | 5.8 | +1.6 |
| World | 67.9 | 68.6 | | 86.2 | 70.0 | | 79.7 | 71.6 | |

Year beginning August 1; consumption is mill use. --- = negligible. F = forecast.

marketing year. China will again account for more than 46 percent of global stocks, with ending stocks projected to decline 640,000 bales in other foreign countries. U.S. ending stocks will more than double as domestic use may be the lowest this century. [Richard M. Cantor (202) 786-1691]

Tobacco

Tobacco Production Slows

World tobacco output in 1985 is forecast at 6.27 million tons (farm-sales weight), down 1 percent from last year, mainly due to a smaller U.S. crop. Flue-cured may be near 1984's 3.1 million tons, while a marginal rise to 957,000 tons is expected for oriental leaf. Burley output may decline 8 percent to 751,000 tons.

The U.S. expected harvest from 284,000 hectares is 11 percent lower, and output of about 693,000 tons will be roughly 12 percent less than last season. The U.S. auction price for flue-cured leaf rose 2 percent in 1984 to \$1.81 a pound. However, auction prices through September 11, 1985, averaged \$1.64 a pound, down 13 cents from a year earlier

because of larger supplies and lower quality. The support price for 1985 flue-cured will be \$1.70 a pound, the same as the previous 2 years.

China's crop is estimated at 1.9 million tons, 9 percent above last year but 12 percent below the 1982 record of 2.2 million. Decreased production is also expected for India, Brazil, the USSR, Greece, Japan, Zimbabwe, South Korea, Canada, the Philippines, and Argentina.

Consumption Up in 1985

Consumption in 1985 could reach a record 5.8 million tons, about 165,000 tons greater than in 1984. China, the world's largest consumer, is expecting a 3-percent increase in leaf use, reflecting a continuing rise in cigarette output. However, U.S. use is expected to decline slightly from last year's 651,000 tons as some States raise sales taxes and impose additional smoking restrictions. Consumption continues stagnant in Europe and Japan because of higher cigarette taxes and continuing antismoking campaigns. However, consumption will advance in many Asian and

Tobacco: World production, consumption, and net exports

| Country | 1983 | | | 1984 1/ | | | 1985 F | | |
|------------------------|-------|-------|---------|---------|-------|---------|--------|-------|---------|
| | Prod. | Cons. | N. exp. | Prod. | Cons. | N. exp. | Prod. | Cons. | N. exp. |
| 1,000 metric tons 2/ | | | | | | | | | |
| Major exporters | | | | | | | | | |
| United States | 583 | 560 | 31 | 706 | 651 | 35 | 624 | 650 | 11 |
| Brazil | 322 | 161 | 177 | 345 | 160 | 189 | 332 | 161 | 170 |
| Zimbabwe | 87 | 4 | 93 | 110 | 3 | 85 | 106 | 3 | 93 |
| Greece | 107 | 32 | 78 | 135 | 34 | 95 | 133 | 35 | 105 |
| Turkey | 180 | 83 | 70 | 159 | 85 | 70 | 162 | 86 | 75 |
| India | 547 | 375 | 83 | 467 | 385 | 81 | 423 | 390 | 85 |
| Italy | 133 | 85 | 46 | 130 | 81 | 72 | 132 | 80 | 66 |
| Malawi | 64 | 2 | 43 | 62 | 2 | 60 | 69 | 2 | 65 |
| Bulgaria | 124 | 108 | 23 | 127 | 103 | 25 | 132 | 102 | 30 |
| China | 1,308 | 1,400 | 17 | 1,705 | 1,678 | 16 | 1,867 | 1,728 | 43 |
| Major importers | | | | | | | | | |
| Germany, Fed. Rep. | 6 | 117 | -112 | 6 | 126 | -120 | 6 | 128 | -122 |
| United Kingdom | 0 | 138 | -126 | 0 | 136 | 125 | 0 | 132 | -122 |
| Netherlands | 0 | 70 | -69 | 0 | 72 | -63 | 0 | 63 | -70 |
| Spain | 36 | 101 | -68 | 38 | 114 | -70 | 39 | 122 | -69 |
| Belgium | 2 | 42 | -33 | 1 | 40 | -31 | 2 | 35 | -32 |
| France | 38 | 67 | -29 | 31 | 56 | -25 | 31 | 55 | -24 |
| USSR | 347 | 385 | -101 | 334 | 400 | -83 | 329 | 410 | -67 |
| Japan | 123 | 206 | -77 | 122 | 201 | -67 | 109 | 200 | -64 |
| Egypt | 0 | 46 | -49 | 0 | 48 | -45 | 0 | 52 | -52 |
| Germany, Dem. Rep. | 5 | 24 | -20 | 6 | 25 | -20 | 6 | 26 | -20 |
| Residual | 1,378 | 1,355 | +23 | 1,226 | 1,231 | -79 | 1,147 | 1,336 | -101 |
| World | 5,390 | 5,361 | | 5,710 | 5,631 | | 5,649 | 5,796 | |

1/ Preliminary. 2/ Dry weight. F = forecast.

South American countries due to larger populations and urbanization.

Tobacco Exports Unchanged

Preliminary estimates indicate that world exports of unmanufactured tobacco in 1985 are expected about unchanged at 1.4 million tons because of decreased demand in developed nations. However, Brazil, the world's second largest exporter at 170,000 tons in 1985, is forecast to export 10 percent less because of reduced U.S. and U.K. purchases. Export gains for Greece, Zimbabwe, India, Turkey, Bulgaria, Malawi, and Indonesia, and will more than offset declines for Italy, Canada, Argentina, and Thailand.

U.S. Tobacco Exports Down

The value of U.S. unmanufactured tobacco exports is expected to decline in 1985. Exports are forecast at \$1.4 billion, down 7 percent from last year. The volume may drop 4 percent from 1984 to 235,000 tons. The U.S. share of world exports may fall to 17 percent in 1985, significantly below the 1970's average 22 percent. Relatively higher flue-cured and burley prices, more efficient processing techniques (especially in the EC and Japan), weak global demand, large overseas supplies, and the strong U.S. dollar have hampered U.S. sales.

U.S. exports of tobacco and tobacco products in 1985 may decline to \$2.6 billion because of lower value and volume. U.S. general imports in 1985, mostly cigarette leaf, are expected to decline 14 percent to \$540 million. [Charles E. Goode (202) 786-1625]

REGIONAL DEVELOPMENTS

United States

Crop Output Up, Red Meat Down

U.S. crop production may be up more than 4 percent in 1985, despite a small decline in area planted. Good growing conditions boosted yields for many crops. Increased production of feed grains, oilseeds, and cotton offset a decline in food grains and tobacco. Large crops, combined with stagnant domestic use and exports, will result in a buildup of

stocks in 1985/86, which will continue to depress farm prices.

The U.S. cattle inventory continues to decline as producers adjust to low returns and financial stress. The July 1 cattle and calves inventory was down 4 percent from a year ago, and beef cow numbers were down 7 percent. Both the total inventory and beef cow numbers were the lowest since the midyear inventory began in 1973. Heavier slaughter weights are keeping beef production nearly as high as last year and prices low. Hog prices have also been low because of large supplies of other meats. Both cattle and hog prices are expected to increase this fall as production falls below a year earlier. With broiler production continuing to grow, total red meat and poultry production in 1985 will be slightly larger than last year.

The outlook for next year is for a moderate drop in beef production, a slight decline in pork, but continued expansion in broiler output. Total meat production is expected to fall. Thus, cattle and hog prices will likely rise next year, but poultry prices may not show much change.

Farm Economy Remains Depressed

The farm financial picture remains depressed, reflecting low prices for crops and livestock, declining land values, and high debts. Cash receipts are expected to fall in 1985. Production expenses may also decline, but not enough to prevent farm income from dropping to a forecast \$23 to \$27 billion. Low farm prices are holding retail food price increases at an annual rate of only about 2 percent. [Carol Goodloe (202) 786-1663]

Canada

Production and Exports Fall

For the second year in a row, western Canadian grains have been affected by drought. Despite an increase in area and promising spring weather, wheat and coarse grain production fell below earlier expectations. Reduced production, combined with low stocks, will limit exportable supplies in 1985/86. Grain area will likely stay high for the next several years to allow Canada to rebuild stocks and recover its share of world grain exports.

In contrast, oilseed production could be a record. Excellent weather in Manitoba, where most of the flaxseed is grown, boosted production. Despite a decline in rapeseed area, good yields resulted in the third largest crop ever. In Ontario, both area and yields for soybeans are records. Increased supplies could contribute to larger exports in 1985/86.

Because of low supplies from 1984 drought-stricken crops, Canadian grain and oilseed exports fell 25 percent in 1984/85 (August-July). Exports of all major commodities declined, but oilseeds less than grains. Wheat exports were down about 25 percent, while coarse grain exports dropped by almost half.

Feed Grain Policy Changes

Recent changes in Canadian feed grain policy may affect U.S. coarse grain trade. Import licenses for feed oats and barley will no longer be issued by the Canadian Wheat Board (CWB) but by another agency. U.S. exports could benefit if licenses are issued more freely than in the past. Also, the CWB will now sell western feed grains in eastern Canada at market prices rather than the previously used administered price based on U.S. corn prices at Montreal. This move could reduce the demand for U.S. feed grains in eastern Canada. In addition, the CWB has instituted a barley contract program to help ensure a more even flow of farmer deliveries. The CWB reportedly has had difficulty making barley export sales because of uncertainty over supplies. This program could make more barley available for export. [Carol Goodloe (202) 786-1663]

Western Europe

U.S. Farm Exports Continue Falling

U.S. agricultural exports to Western Europe in fiscal 1985 were forecast at \$6.9 billion in August, compared with \$9.3 billion in 1984 and a record \$13.3 billion in 1980. Exports are expected to be the lowest since 1975, or 1972 if adjusted for inflation. Exports will probably be down about one-fifth to the EC and one-third to Other Western Europe. Sharp declines will occur for grains (mainly corn) and oilseeds (mainly soybeans). Cotton and nuts are the only two major exports likely to gain.

U.S. exports of grain and feeds to Western Europe, forecast at \$1.7 billion, will be down around \$1 billion from fiscal 1984, and about 40 percent of the value 5 years earlier. Coarse grains account for most of the drop. Record grain crops, large use of wheat for feed (25 million tons), as well as greater use of lower-priced nongrain feeds are expected to reduce coarse grain imports. Also, the value of U.S. exports of oilseeds and products is expected to drop nearly one-third in fiscal 1985. Loss of market share to Brazil and Argentina, increased domestic production of oilseeds (rapeseed and sunflower) and other protein feeds (pulses), and a stagnant livestock sector are adversely affecting U.S. soybean exports. The high priced dollar is further shifting European imports of soybeans and some other products to other suppliers.

In contrast, exports of U.S. nuts and preparations to Western Europe are expected to be up sharply in fiscal 1985 due in large part to the shortfall in the Spanish almond crop. Also, U.S. cotton exports will likely exceed last year's exceptionally high sales. A continued rise in consumer income, combined with increasing European textile exports, is boosting cotton imports. Favored characteristics of U.S. cotton and lower USSR export availabilities are offsetting higher U.S. prices, the strong dollar, and increased competition by other traditional suppliers.

Wheat Washing Industry Expands Rapidly

The wheat washing industry in the EC has tripled in size since 1981 because of declines in the price of EC soft wheat relative to corn and hard wheat. The wheat washing industry separates wheat flour into wheat starch and wheat gluten by running the flour through a "washing" process. The wheat gluten is 75-percent protein and is combined with EC soft wheat flour of low protein to substitute for imported hard wheat flour of higher protein in baking. Wheat starch can substitute for corn starch in most applications, but higher processing costs limit the degree of substitution.

In fiscal 1985, the industry is expected to use flour from 800,000 tons of EC wheat to produce wheat gluten. This is an increase of approximately 530,000 tons from 1981. Compared with 1981, flour from 2 million more tons of EC wheat is expected to be

combined with the wheat gluten to replace nearly all the 2.1-million-ton decline in EC hard wheat imports from third countries in 1985. In total, the wheat washing industry will absorb 2.5 million more tons of surplus EC wheat than in 1981. Also, the production of 370,000 tons of wheat starch in 1985 will displace 620,000 tons of corn that would have been wet milled into starch.

The wheat washing industry is likely to double in size in the next 3 to 5 years and will probably result in a significant decline from the current 2.8 million tons of annual wheat imports by the EC. Further expansion of the corn starch industry, which historically used imported U.S. corn, will be limited, but the EC's reliance on imported corn will continue to decline as the quantity and quality of domestic corn continues to increase.

Large 1985 Grain Crop Expected

Western Europe's 1985 wheat and coarse grain production is forecast at 181 million tons--down 10 million from last year's mammoth crop, which was more than 28 million above the previous record in 1982. Area is forecast to be only marginally down and yields are expected to be lower because of less favorable weather. The EC's 1985 wheat crop--forecast at 69 million tons--is 8 million less than last year's record, but exceeds U.S. production for the second year in a row. EC coarse grain production will likely drop 2 million tons from the large 1984 crop, but at 73 million tons, will still be the second largest. In Other Western Europe, grain production is forecast to be 1.3 million tons below last year's exceptionally high 40 million tons.

The large 1985 crop, supplemented by record beginning stocks, and weak demand from the mixed feed industry, is expected to cut Western Europe's 1985/86 grain imports about 2 million tons. Total imports are forecast at 32.2 million tons, including 19 million in intra-EC trade. This follows a 6.4-million-ton drop in imports from non-EC countries in 1984/85, and continues the rapid downward trend of recent years. Western Europe's imports of U.S. grains are likely to continue declining to under 8 million tons in 1985/86, or 15 million less than just 5 years earlier.

Competition in world grain markets, particularly in wheat, is expected to intensify in 1985/86. The Community will face difficulty in finding markets for its grain. World wheat and coarse grain trade is expected to drop about 22 million tons from 1984/85, the largest year-to-year drop since 1968/69. [Jim Lopes and Dale Leuck (202) 786-1717]

Australia ³⁰³

Grain Production Lower

Widespread rains in August could not counter the effects of relatively dry conditions in May and June and in many areas in July. Wheat acreage is forecast at 11.8 million hectares. Assuming favorable weather for the remainder of the season, the wheat crop is expected to be 16.0 million tons, down 14 percent from 1984/85. Despite the reduced output, high beginning stocks will enable Australia to maintain exports at 1984/85 levels.

Despite dry conditions, coarse grain plantings, estimated at 5.6 million hectares, are up 4 percent. However, the dry conditions are expected to reduce yields around 10 percent. Coarse grain production is forecast at 7.7 million tons, 9 percent below 1984/85. Because of the reduction in livestock feed, some oat land will be grazed, thus reducing the area for grain production to 1.2 million hectares, but still allowing a 6-percent increase in production over the previous season. Production is expected to be 1.5 million tons for sorghum and 250,000 for maize, based on projected area of 765,000 and 100,000 hectares for sorghum and maize, respectively.

Slow Growth in Livestock Herds

Efforts to rebuild Australia's sheep and beef herds have been hindered by the dry summer and autumn. By March 1986, the cattle herd is expected to rise marginally to 23.7 million head from the 23.0 million a year earlier. Dry pastures caused some farmers to sell early, and cattle slaughter in the first 5 months of 1985 was 8.5 percent above a year earlier. However, improved soil moisture from June rains reduced the slaughter rates significantly in recent months. July rains

continued to improve pastures, but low winter temperatures will reduce pasture yields and prevent a substantial improvement in the herd until spring 1986. By the end of 1986, the cattle herd is expected to reach 24.4 million head. Expansion of the sheep flock is expected to expand slower than last year's 7 percent. Wool production will likely be emphasized over sheepmeat because it is more profitable. [Paul V. Johnston (202) 786-1611]

Japan

U.S. Farm Exports Continue To Drop

U.S. farm exports to Japan in fiscal 1985 are estimated at \$5.8 billion, down more than \$1 billion from the record \$6.9 billion a year earlier. Lower prices and slow or no demand growth in Japan's major commodity markets are primarily responsible. The U.S. share of Japanese wheat, tobacco, and beef imports is expected to improve, but the U.S. share of feed grains, pork, poultry meat, and soybean meal likely will decline. U.S. farm exports to Japan in fiscal 1986 are expected to remain about the same, with slower economic growth and increased competition in some commodity markets offsetting the positive effect of a stronger yen and declining prices.

Livestock Output To Grow Modestly

Livestock production is expected to expand modestly in 1985, in the face of generally weak market prices and sluggish consumer demand. Beef and veal output is forecast to rise slightly because of unexpected continued heavy slaughter of Wagyu females during the first part of the year. This will lead to reduced supplies for slaughter and a decline in output in 1986.

Pork production is likely to expand nearly 4 percent because of a larger-than-expected pig crop in late 1984 and increased culling of sows in response to Ministry of Agriculture, Forestry, and Fisheries (MAFF) guidance to limit expansion in hog production. Continued efforts by producers to limit herd expansion will lead to lower output during the coming year. After almost 7 percent growth last year, broiler output is forecast to increase about 3.5 percent in 1985, held back by voluntary producer efforts to curb production and strengthen prices. In addition, egg output

is expected to expand 2.5 percent (2.2 percent in 1984), despite intensified MAFF guidance to limit layer flock sizes.

The U.S. share of Japan's beef and veal imports is likely to reach 31 percent this year, up from 29 percent in 1984, as a result of the U.S.-Japan beef and citrus understanding of April 1984. But the U.S. share of Japan's pork and poultry imports is expected to contract further, hurt by relatively high U.S. pork prices, and strong competition from Taiwanese and Danish pork and Thai and Brazilian poultry meat. The Government of Japan is working towards approving quality and certification standards for U.S. beef cattle and swine semen and bovine embryos, similar to requirements for U.S. Holstein semen agreed to last year, promising increased U.S.-Japan trade in genetic materials. The United States sold \$118,000 worth of bull semen to Japan in 1984.

U.S. Wants More Wood Sales

During July 9-10, the United States and Japan held subcabinet level talks in Tokyo on forestry products, one of the four targeted areas in which the United States is seeking improved access to the Japanese market. The United States requested lower tariffs on plywood and other wood products and greater detail on the proposed 5-year revitalization program for Japan's forestry sector. Subsequently, an experts' meeting to resolve standards problems in the forest products area was held in Tokyo during July 24-26. As part of its July 30 market-opening "action program," the Japanese Government announced it would lower tariffs on softwood and hardwood plywood and other panel products beginning April 1987, but did not announce the size of the planned reduction. [Lois A. Caplan (202) 786-1611]

Middle-Income East Asia

U.S. agricultural exports to Middle-Income East Asia (South Korea, Taiwan, and Hong Kong) are forecast to fall to \$3.1 billion in fiscal 1985, after hitting a record \$3.6 the year before. The decline is due to decreasing prices for bulk commodities, competition from other exporters, and slower economic growth in the region. U.S. farm exports are forecast to rise slightly in fiscal 1986 because of expected increases in coarse grain sales, mainly to South Korea.

U.S. Sales Face Old and New Competition

U.S. coarse grain exports to the region are expected to decline 13 percent to 5.3 million tons in fiscal 1985. A forecast 22-percent increase in sales to Taiwan, mainly because of policy-induced increases in stockholding demand, particularly during first-half 1985, have been more than offset by an expected 47-percent decrease in sales to South Korea because of continued competition from PRC. PRC has become the leading supplier of coarse grains to South Korea. South Korean purchases from the United States have picked up recently, however, because of a narrowing between PRC and U.S. corn prices as well as delays and cancellations of some Chinese export contracts.

New but minor competition has surfaced in the region's soybean market. For the first time in many years, South Korea purchased 80,000 tons of soybeans from Brazil, and Taiwan purchased 35,000 tons from Uruguay during October-June. Also, Taiwan agreed to purchase 35,000 tons of soybeans from Paraguay.

U.S. Cotton Also Faces PRC Competition

U.S. cotton exports to the region are expected to decrease significantly from 441,000 to 410,000 tons in fiscal 1985 because of stiff competition from PRC in the Hong Kong market. Since 1983, Hong Kong has become an important market for Chinese cotton, which is reportedly 25-30 percent cheaper than U.S. cotton. The outlook for all cotton sales to the region is clouded by proposed U.S. legislation to increase protection of the U.S. textile industry. Some Hong Kong textile companies, mainly dependent on the U.S. market, are seeking opportunities in Europe to avoid the effects of tighter U.S. restrictions on East Asian textiles. [Sophia Wu Huang (202) 786-1611]

USSR

Gross agricultural production in the USSR will be a record in 1985, an estimated 3 to 4 percent over 1984. A strong recovery in grain and feed production and modest increases in livestock production are responsible.

This year's grain crop benefited from abundant precipitation during the growing season and in many regions, prospects are noticeably improved over last year's drought-damaged crop. Preliminary reports, however, indicate no more than a mediocre grain harvest this year. A number of reports have mentioned stunted and sparse grain. The 1985 harvest is progressing slower than any since 1980 and the threat of late harvest losses is greater than normal.

Given a good silage harvest, nongrain feed supplies in 1985/86 will be the largest ever. This, combined with the improved grain outturn, will result in much lower Soviet grain imports, already evidenced by the slow trade pattern of the summer quarter. A reduced Soviet corn crop should keep corn imports from the United States in 1985/86 well above the minimum of 4 million tons, but far below the record of nearly 16 million in 1984/85. Given abundant world wheat supplies and reduced Soviet import needs, U.S. wheat exports to the USSR in 1985/86 are not likely to exceed 4 million tons.

Meat production in 1985 is expected to increase about 1 percent. In 1984/85, tight feed supplies, compounded by a cold winter and a delayed spring, forced animal inventories in the socialist sector below a year earlier by spring. Large drawdowns in hog numbers supported pork production early in the year, but pork output will probably fall noticeably by the end of the year.

The improved feed situation beginning this summer has already set the stage for a recovery in livestock numbers and production in 1986. Milk production was the first to benefit. In June and July, production in the socialist sector moved ahead of the 1984 pace. Total milk production in 1985 is now expected to exceed last year's record 97.6 million tons by 1 to 2 percent.

Fall Fieldwork Off to Slow Start

The target for fall-sown crops this year is 40 to 41 million hectares, the same as in the last few years. Of this, about 35 to 36 million will probably be sown to grain. Fall fieldwork got off to a slower start than normal this year. By September 2, only 11.9 million hectares of winter crops had been sown, compared with 17.2 million last year.

This year, an increasing share of winter grain area is to be cultivated according to the Industrial Crop Technology (ICT) system. This requires use of high quality seed, appropriate crop rotation practices, increased use of fertilizers and pesticides, and coordinated use of mechanized cultivation and harvesting practices. Last year, 6.4 million hectares of winter wheat were grown under ICT. This year, ICT will account for over 15 million hectares of winter wheat, winter barley, and rye. The impact of ITC on the 1985 grain crop remains unclear. A major question is whether it is being implemented as specified by agricultural specialists or in a haphazard and incomplete way. The rapid expansion of the ICT method will pressure support industries to provide the necessary inputs and farm managers to ensure proper utilization.

[Edward Cook (202) 786- 1710]

limiting use of fertilizer. The same factors have contributed to a 13-percent cut in cotton area and an anticipated 22-percent drop in output.

Producer incentives this year favor oilseeds, and farmers have responded with large increases in rapeseed and peanut plantings. Total oilseed production will rise only slightly, however, as cottonseed production will be off sharply. Other crops will show substantial gains. Record sugar crops are likely, tobacco production will be up, and output of fruits, vegetables, and a wide range of minor crops will be higher. Substantial gains are likely in output of meat, eggs, and other livestock products.

Imports To Grow Little

Agricultural imports will remain depressed and substantial exports will continue in 1985/86, as large stocks offset the effect of lower production of major crops. Imports of wheat are likely to be only about 7 million tons. Corn exports are expected to fall somewhat from the 5 million tons of 1984/85, but Chinese corn will continue to compete with U.S. exports in Asian markets. Cotton exports are likely to rise somewhat from the 1.2 million bales shipped during 1984/85, as China continues to push exports in an effort to reduce large stocks.

With China no longer in the market for U.S. corn, soybeans, and cotton, wheat is now the major U.S. farm export to China. With a somewhat higher U.S. share of China's wheat imports, total U.S. agricultural exports in fiscal 1986 could rise from the \$270 million expected during 1985. But gains in the total value of exports will be relatively small.

[Frederic M. Surls (202) 786- 1616]

China

The rapid growth of China's agriculture has halted, and total agricultural output in 1985 may drop below last year's record for the first year-to-year decline since 1977. Production of grains and cotton will be lower, but larger harvests of a number of other crops are likely. Output of livestock products will be at record levels.

Despite reduced production of major crops, agricultural imports are not expected to recover significantly. U.S. agricultural exports to China during fiscal 1985 are estimated at the lowest level since 1977, and very little recovery is expected during 1986.

Grain and Cotton Production Lower

Grain production in 1985 is projected to fall about 3 percent from the record harvest of 309 million tons in 1984. Despite the decline, this is likely to be the second best crop on record. Wheat production will be off only slightly, and somewhat larger declines in output of rice and coarse grains are projected. Lower area is responsible for most of the drop. Farmers have reduced multiple cropping, taken some poor land out of production, and shifted land to production of other crops as the Government has cut back grain purchase commitments and anticipated prices on surplus production have fallen. Uncertainty about prices also appears to be

Eastern Europe

The spring and summer in Eastern Europe were excessively dry, particularly in the southern countries, compounding the effects of a severe winter. As a result, grain and oilseed production in 1985 are not expected to reach the 1984 record, although both will be well above the 1976-80 averages. Livestock production is expected to show little change from 1984. The record 1984 crop production is mostly being used to reduce imports rather

than increase feed supplies. The harsh winter also adversely affected the trade balance throughout the region. These two factors will likely result in sharply lower U.S. exports to the region in 1985, and little change is expected for 1986.

Grain and Oilseed Production To Decline

Total grain production in Eastern Europe is forecast at 103 million tons, down 10 percent from 1984. Wheat production is projected to be down 9 percent and barley down 11. Winter grains are down in Romania and Bulgaria because of severe winterkill. In Bulgaria, large areas of wheat are reported to have been plowed up and replanted to corn and sunflower. Spring grains are doing very well in the northern countries, but have been hurt by an extremely dry spring and summer in Bulgaria and Romania and a dry summer in Yugoslavia. The corn crop is projected to be 14 percent lower than in 1984; with this summer's drought, the Yugoslav corn crop is forecast at 8.5 million tons, down from last year's 11.3 million.

Oilseed production is expected to be about 4 percent below the 1984 level. Rapeseed production will likely rise, as Poland, the largest producer, has increased area planted. Soybean production, however, is expected to fall 22 percent: spring planting was delayed in Romania, and plants are now severely stressed by the dryness. In Yugoslavia, planting was below plan and yields are now threatened by the dry summer. Sunflowerseed production is expected to decline only 8 percent for Eastern Europe. The sharp declines expected in Romania and Bulgaria will be partially offset by a 35-percent area increase in Yugoslavia, resulting from progress in combating phomopsis, a fungal disease that has cut production almost in half in recent years.

Livestock Production Remains Stable

January 1985 livestock numbers showed almost no change in cattle, hog, or poultry numbers in Eastern Europe as a whole. Livestock production is expected to increase in Poland and the GDR, but decline elsewhere. Meat production should decline in Bulgaria and Romania, as the severe winter reportedly resulted in a high level of young animal deaths. In Yugoslavia, forced slaughter

resulting from high corn prices led to a 7-percent increase in red meat production in 1984, but will mean lower production in 1985. The situation should soon stabilize, as corn prices are coming down.

U.S. Exports Fall

U.S. agricultural exports to Eastern Europe are forecast at \$630 million, down 14 percent from fiscal 1984. One reason is reduced import needs because of record 1984 production. Another is continuing competition from other suppliers in Latin America and Western Europe. But a further reason could be pressures resulting from a deteriorating 1985 trade balance. According to reports on the first quarter of 1985, the harsh winter caused an increase in energy imports and a fall in production, which has hurt exports. It is quite possible that agricultural imports in general are being cut back in an attempt to improve the trade balance. [Nancy J. Cochrane (202) 786-1710]

South Asia 16

Little Growth in Cereal Imports Likely

South Asian cereal production is forecast to rise 4 percent to a record in 1985/86. The 1985 monsoon arrived late over northern areas of the subcontinent, but rains have been ample since mid-July. Excellent rice crops are expected everywhere except Sri Lanka, where poor weather and civil unrest may disrupt production for the second consecutive year. Average monsoon rainfall and more normal winter rains should lead to larger 1986 wheat harvests in India and Bangladesh, and to a recovery in Pakistani production following poor crops in 1984 and 1985.

The region's wheat imports in 1985/86 (July/June) are expected to remain near last year's 4.2 million tons. Pakistan's poor 1985 wheat crop is expected to boost its imports from 1 million tons in 1984/85 to about 2 million in 1985/86, but actual purchases could be smaller if the outlook remains good for a recovery in wheat production in 1986. Bangladesh's wheat imports are expected to fall because of improved harvests, while Sri Lanka's imports continue to show little growth. India's efforts to reduce its large wheat surplus will focus on boosting domestic

consumption, but exports are projected at 1.5 million tons. U.S. wheat sales to the region are projected to rise about 30 percent to 2.4 million tons because of large concessional and credit sales to Pakistan.

South Asian rice imports are projected to fall from about 730,000 tons in 1985 to 500,000 in 1986, as larger Sri Lankan requirements are offset by smaller purchases by Bangladesh. A highly competitive world market is expected to allow little growth in South Asian rice exports in 1986, although ample supplies and the need for export earnings could lead both India and Pakistan to become more aggressive in world markets.

Edible Oil Imports May Rise in 1986

South Asia's edible oil imports are forecast to fall 17 percent to about 2.1 million tons in 1985. India's requirements have fallen 23 percent to about 1.3 million tons because of consecutive good oilseed harvests. Pakistan's needs have been reduced marginally to about 710,000 tons by a strong rebound in cottonseed production. Palm oil has recaptured a dominant share of both markets because of its lower price relative to soybean oil. Total regional soybean oil imports are forecast to fall 35 percent to about 750,000 tons in 1985, with U.S. soybean oil sales expected to fall about 25 percent to 340,000 tons.

In 1986, the region's edible oil imports are projected to rise 8 percent to 2.3 million tons. Pakistan's import demand is expected to rise because cotton production is forecast to fall significantly from the 1984/85 record. India's edible oil production is projected to grow more slowly following 2 years of above-trend expansion, leading to larger imports to maintain price stability. With relatively strong gains in world palm oil supplies projected for 1986, palm oil is expected to continue to account for a majority share of the region's imports, leading to little or no growth in U.S. soybean oil sales. [Maurice R. Landes (202) 786-1614]

Southeast Asia



Economic Growth Slows in Southeast Asia

Projections for economic growth in the Southeast Asian countries have been revised

downward, indicating gloomy prospects for agricultural trade. The economies of Singapore and the Philippines are expected to show negative growth in 1985. Malaysian, Thai, and Indonesian economic growth rates have slowed.

Indonesia Enjoys Food Security

Indonesia's food situation remains excellent based on a record wet season rice harvest and the favorable outlook for dry season rice and secondary food crops. Projected rice output in 1985, 26.5 million tons, is 2.6 percent above the estimate for 1984, further increasing per capita use of the primary staple to 162 kilograms. High levels of food production and stocks have caused farmers to market substantial quantities of rice at prices well below government supports. Despite lower rice prices and fertilizer subsidies, there has been no significant reduction in dry season rice plantings.

Malaysian Palm Oil Grows

Malaysian palm oil output in 1985 could reach 3.9 million tons (3.7 million in 1984) if production, which has been lagging year-earlier levels, rebounds as anticipated. New plantings likely will increase oil palm area 5 percent to 1.41 million hectares. However, the new trees do not start bearing fruit for 3 years. Due to large supplies of competing oils, palm oil prices have softened considerably in 1985.

Philippines on Road to Recovery

In mid-July, the International Monetary Fund (IMF) approved the release of \$82 million, the second installment of the IMF standby loan. The release signals endorsement of the Philippine economic recovery program and hastens implementation of the financial rescue package prepared by the country's creditor banks. The package includes a \$3-billion revolving trade facility, which should support import growth by early 1986.

The value of U.S. farm exports to the Philippines is estimated at \$319 million in fiscal 1985, compared with \$300 million the previous year. The increase is due to additional rice sales generated by a \$40-million P.L. 480, Title I program and offsets declining corn and cotton sales.

Thailand Produces Bumper Corn Crop

Thailand will produce another bumper corn crop in 1985/86, with output reaching 5.0 to 5.3 million tons, up 20 percent from 1984/85 production. The exportable surplus will reach 3.75 million tons and export prices will continue to fall.

Thai rice prices remain depressed due to a soft export market. Export prices are posted at less than half their year-earlier level and 53 percent of the U.S. price. [Jitendar S. Mann (202) 786-1614]

Sub-Saharan Africa

Kenya's Food Crops Recover Sharply

Kenya's severe drought ended in late 1984 with normal to above normal rainfall, and food production will increase dramatically. The drop in output last year led to unprecedented grain imports. This year, Kenya will return to self-sufficiency in corn, the major food crop, and may be able to export small amounts. The corn harvest is expected to rise approximately 40 percent to 2.4 million tons. In addition to better weather, a higher producer price led to above average plantings, although fertilizer supplies were short.

Wheat production also will be up from 1984's disastrous harvest of only 80,000 tons to 235,000 tons. However, lack of sufficient seed restrained plantings. Wheat imports will remain high, at some 250,000 tons. Consumption of wheat has been increasing rapidly, particularly in urban areas, and is estimated at over 450,000 tons during 1985. Sunflower seed and cotton plantings were higher this year, and production of both should also increase.

Despite better rainfall, sugar production is expected to be down in 1985. Cane was overcut in 1984 to increase supplies during the food crunch. In recent years, output has stagnated, reflecting changes in national priorities and the sharp fall in world sugar prices since 1980. Food grain crops have become more valuable in Kenya, and incentives for sugar cane production have lagged. Inputs have been cut and sugar yields have dropped. As recently as 1980, Kenya exported about 100,000 tons of sugar, while

this year the Government has approved imports of 70,000 tons.

Strong export performance, especially in coffee and tea, helped Kenya cope with the 1984 food crisis. Kenya benefited from relatively high beverage prices during 1983 and 1984. In 1984, world beverage prices were about 20 percent above the index for all commodities. Exports in 1985 will be affected by beverage prices, which are dropping along with most commodity prices, but still remain higher than the average for all commodities.

Record Tea Crop in Store

Kenya is headed for another record year for tea. Production is estimated at 135,000 tons, which would be 13 percent above the 1983 record of 120,000 tons. Warm weather, larger area harvested, and increased fertilizer use are key factors. Kenya has become the dominant African tea producer and accounted for 52 percent of all Africa's tea in 1984.

Land planted to tea was increased slightly in 1984, to 83,372 hectares, but given scarcity of land and competition for food crops, area was not increased for 1985. However, old and unproductive bushes are being replaced and the total bush population is being increased so that yield potential is higher.

Kenya tea is an African success story in cash crop exports from small holders. Exports in 1985 could reach a record 120,000 tons. Although exports dropped in 1984 to 91,000 tons from the record 100,000 of 1983, export earnings climbed 58 percent to \$263.6 million. With record export prices, domestic consumption of tea was restrained in 1984 and the use of coffee was encouraged to maximize tea exports.

World tea prices are dropping in 1985. Demand in the United Kingdom has weakened and India has reduced its minimum tea export prices as its production will reach a record. In June, Kenya's tea prices fell to 50 percent of the 1984 average and to about 80 percent of the 1983 average. The outlook for tea prices is tempered by India's plans to raise tea production more than domestic consumption during the next 4 years.

Coffee Crop Falls After 1984 Drought

The 1984 drought's impact on coffee was delayed so that coffee deliveries in 1984/85

(Oct.-Sept.) have dropped about 30 percent from the previous year's record to about 1.5 million bags (60 kilograms each). This factor will not necessarily reduce Kenya's exports, as its stocks are large. However, foreign exchange earnings for Kenya's leading export could well drop below the previous year, depending on International Coffee Organization (ICO) quota decisions, nonquota exports, and prices. If Kenya's quota is cut proportionally with the latest world quota cut, its revised ICO quota will drop 5 percent to about 1.33 million bags, less than during 1983/84.

Given good rainfall this year, and an increased number of bearing trees, coffee production is expected to increase to 1.8 million bags during 1985/86. However, some fertilizer shortages may dampen potential yield increases. Government policy is to use land more intensively and closer spacing of trees is being encouraged. Interplanting has also been forbidden to increase yields. Land in coffee is steady at 138,000 hectares. The Coffee Board of Kenya research station has developed new disease-resistant and higher-yielding varieties.

Interest Grows in Smaller Exports

Coffee and tea dominate Kenya's agricultural exports, but there has been progress in promoting other products. Kenya is the only African country to rapidly increase pineapple production during the past 10 years. Expansion required successful export marketing, mainly to Europe and to the Middle East. While 1984 production was restrained by supplies of irrigation water, output should increase again in 1985.

Similarly, tobacco production has increased more than in any other African country, from 334 tons in 1975 to an estimated 8,500 in 1985. Kenya has become self-sufficient in tobacco, and exports have exceeded imports since 1982. However, this year production is limited by a quota for the first time because Kenya cannot market all its surplus. Thus far, exports have been limited to East Africa, and continued rapid production increases will depend on raising quality for export markets. [Lawrence Witucki (202) 786-1680]

Latin America

U.S. Petitioned on Sugar Imports

Ten Central American and Caribbean sugar-producing countries, headed by the Dominican Republic, have grouped together to gain better access to the U.S. sugar market and bolster their economies. The countries have proposed a solution to the crisis created by the steadily shrinking U.S. import market for sugar and the collapse of world sugar prices. Low sugar prices and reduced exports have had a devastating impact on the countries' economies and are beginning to affect the political and social stability of the region as well. This request highlights the Administration's dilemma of helping these countries while protecting domestic sugar and corn growers.

On September 13, a new sugar quota was announced effective December 1. Despite their requests, quotas for most Central American and Caribbean countries were reduced. However, part of the reduction simply reflects the shorter quota period--10 months versus 14 months under the previous quota.

Brazil Announces New Farm Programs

In August, Brazil announced next season's farm programs. Pro-farmer rhetoric from recent political campaigns raised expectations that support for agricultural production would be increased and that food crops for domestic consumption would be favored. The political support for agriculture was countered by demands for Government austerity to reduce deficits and fight inflation. The new farm program is not as supportive as farmers hoped.

U.S. sugar imports from the Caribbean and Central America

| Exporter | 1980 | 1981 | 1982 | 1983 | 1984 |
|----------------------|---------|---------|-------|-------|-------|
| Thousand metric tons | | | | | |
| Dominican Rep. | 527.6 | 492.0 | 441.7 | 421.9 | 458.7 |
| Guatemala | 192.0 | 187.9 | 59.0 | 117.3 | 138.2 |
| Panama | 152.8 | 117.2 | 92.3 | 94.2 | 91.0 |
| EI Salvador | 84.3 | 19.1 | 66.8 | 61.6 | 63.0 |
| Other Cent. Am. | 305.5 | 253.8 | 200.8 | 194.3 | 187.6 |
| Other Caribbean | 144.0 | 43.1 | 8.4 | 62.4 | 33.4 |
| Total | 1,406.2 | 1,113.2 | 870.0 | 951.6 | 971.9 |

The next Brazilian crop (planted in September- December) will be supported by Government programs similar to those of the past. The traditional program includes Government credit for production expenses, support prices for those commodities the Government purchases, and marketing and storage loans. Production credit allocations will be increased at rates above the inflation rate, thus increasing support for agriculture, but only moderately favoring food crops (rice, dry beans, and corn) over soybeans.

Support prices were increased less than the inflation rate, which could reduce marketing and storage loans. More importantly, the Government is unlikely to support prices in 1986 with massive purchases, as in 1985 when it bought 5 million tons of corn, soybeans, rice, and cotton. The support price adjustment favored soybeans over the food crops.

Taken together, the production credit increases may be largely offset by reduced support prices. Total area planted to major field crops in Brazil may continue to stagnate in 1985/86 as it has through the early 1980's. Government distribution of agricultural credit continues to be regarded by the financial community as a major cause of Brazil's inflation, now over 200 percent per year. This farm program makes difficult any agreement with the IMF on renegotiation of Brazil's international debt of over \$100 billion.

Andean Region Expands Grain Output

Prospects for good fall harvests in the Andean region may limit U.S. exports in fiscal 1986. A record wheat crop, to be harvested in December, will further reduce Chile's import needs. The region's rice production will also be higher despite an anticipated decline in Ecuador and Peru. Corn production is also expected to be larger this year, even though Ecuador and Chile may have shortfalls. Venezuela, the region's largest sorghum producer, is expecting a larger harvest. But feed demand is increasing rapidly because of the growing poultry industry, which is based primarily on imported feed grains and protein meals.

Andean Cattle Production in Doldrums

Beef production in Colombia, Peru, and Venezuela is expected to decline in 1985.

However, the impact of lower beef production on U.S. feed grain exports is minimal since most cattle are grass-fed.

Drought, a severe outbreak of a new strain of foot-and-mouth disease (aftosa), and toxicity in pastures have caused higher than normal death rates in Colombia's cattle herd of 23 million. Slaughter is expected to increase in 1985, but slaughter weights will be lower. Peru's beef industry has not recovered from the El Nino disaster of 1983 and is suffering from severe drought in the major southern producing region. The industry has lacked the investment necessary to improve productivity. Venezuela's cattle numbers have increased to 12.5 million despite high death losses in 1984 because of dry weather and disease. People are consuming less beef because of increased prices and are substituting more lower-priced poultry.

Argentine Exports Record

Preliminary estimates indicate that Argentina exported 21.5 million tons of grains and oilseeds during first-half 1985, up from 18.7 million a year earlier. Export volume increased despite a major silo explosion at the deep-water port of Bahia Blanca in March. Infrastructure constraints are being offset with improved management; for example, port authorities are reserving the deep-water ports for topping-off deep draft ships.

The USSR imported an estimated 7.3 million tons of grain from Argentina during January-June 1985, nearly 34 percent of total Argentine exports. The Russian share of Argentina's exports has been trending downward since 1981/82. In 1984/85, 38 percent of Argentina's exports went to the USSR, compared with 80 percent in 1981/82, the year following the U.S. embargo. [Carol Goodloe (202) 786-1663]

WORLD TRADE AND FOOD POLICY

International Organizations

Special GATT Session

A special session of the contracting parties to the General Agreement on Tariffs and Trade (GATT), requested by the United States, has been approved by the required

majority of members. The meeting was set for September 30–October 2, 1985, in Geneva, Switzerland, at a senior official rather than ministerial level.

The request for a special session provided an alternative to consensus for a meeting to discuss the subject matter and structure of a new round of multilateral trade negotiations. Consensus efforts on beginning new trade talks have so far failed, in large part because of disagreement over what subjects are to be included. Trade in services--such as banking, insurance, and telecommunication and electronics industries--is the major stumbling block.

A group of 24 developing countries including Argentina, South Korea, and Yugoslavia, with Brazil and India as spokesmen, have strongly opposed the inclusion of trade in services in any negotiations on trade in goods, proposing that separate talks be held if need be.

Other contentious subjects include the U.S. desire and the EC's reluctance to discuss trade in agriculture in a new trade round, as well as the EC's desire to discuss reform of the international monetary system that underpins world trade.

Trade Actions and Agreements

Canadian Swine, Raspberry Trade Cases

The U.S. International Trade Commission (USITC) reached a final decision on July 25, 1985, on a petition filed November 2, 1984, that alleged material injury to U.S. swine and pork producers from subsidies on Canadian exports of live swine and fresh, chilled, and frozen pork.

The Commission determined that the domestic industry is materially injured (or threatened with injury) by imports of live swine-- but not by imports of fresh, chilled, or frozen pork products-- that are subsidized by the Government of Canada. The vote authorizes the Department of Commerce to levy countervailing duties on imports of live swine from Canada, set by the department's final determination at a rate of Can\$0.0439 (now US\$0.0321) per pound live weight.

In a separate case, the USITC completed a final ruling on June 17, 1985, that U.S. producers are being injured by sales at less than fair value of fresh and frozen red raspberries from Canada. Antidumping duties, with margins ranging from 1–3 percent up to 22.76 percent, were determined by the Commerce Department for various Canadian exporters based on weighted-average estimates of the amount by which import prices fell below the determined U.S. price.

In addition, on August 27, 1985, the USITC reached an affirmative preliminary determination of injury to U.S. producers who petitioned July 18, 1985, for a countervailing duty investigation of certain red raspberries from Canada.

New Zealand Lamb Case

The Commerce Department reached a final determination on September 17, 1985, concerning a petition filed March 26, 1985, by U.S. lamb producers alleging that New Zealand subsidizes lamb production or exports. The department has ordered countervailing duties of NZ\$0.3602 per pound on imports of New Zealand lamb.

The USITC need not determine material injury to the U.S. industry in this case because New Zealand has failed to eliminate several of its subsidy programs violating the GATT subsidies code. Consequently, the U.S. Trade Representative determined that New Zealand was no longer eligible for the injury test required by the code.

Argentina-Brazil Wheat Agreement

Argentina and Brazil signed an agreement in Buenos Aires the week of August 19, 1985, for the sale of 1.375 million tons of Argentine wheat between October 1, 1985, and July 31, 1986. Although not announced, the price is thought to include a \$4 premium over market prices of \$112 per ton.

The agreement helps redress Argentina's large trade imbalance with Brazil, reportedly \$342 million last year, and \$1.2 billion accumulated over the past 4 years.

Food Aid Programs

U.S. Food Aid Amendments

Several changes in U.S. food aid programs were made August 8, 1985, when the President signed the International Security and Development Cooperation Act of 1985 (P.L. 99-83).

First, minimum tonnage levels of donations under P.L. 480 Title II were increased. Currently, 1.7 million tons must be distributed through Title II, of which 1.2 million must be channeled through private voluntary organizations (PVO's) and the U.N.'s World Food Program (WFP). This will be raised to 1.8 million in fiscal 1986 (of which 1.3 million tons will be through PVO's and the WFP) and 1.9 million tons in fiscal 1987 (of which 1.425 million will be PVO- and WFP-distributed). Title II programming has not been less than 1.8 million tons since fiscal 1981.

Further, section 416 of the Agriculture Act of 1949 was amended to allow overseas donation of CCC-owned rice, in addition to dairy products and wheat. No wheat has been donated under the program to date, although a sizable volume of dairy products has been shipped. [Ted Wilson and Mark Smith (202) 786-1688]

COUNTRY BRIEFS

Weather Improves in Sahel

The 1985 rainy season began 2-4 weeks late in Sahelian countries (Mauritania, Senegal, Gambia, Mali, Burkina, Niger and

Chad), but since then most countries, except Niger, have had 6-8 weeks of good rainfall. If the rains continue through the end of September, harvest prospects will be greatly improved over last year, when a dry July and August severely reduced yields. Some areas had more precipitation by mid-August than during all of 1984. Pasture conditions have improved markedly, but cattle herds have been slow to move north because of the weakened state of the animals. The outlook for crops remains uncertain as sorghum and millet are approaching the grain filling stage when moisture requirements are most critical. Any extended dry periods during the next 4 weeks would greatly reduce yields. The Sahelian countries received about 1 million tons of food aid in 1984/85. [Margaret Missiaen (202) 786-1680]

Record Grain Harvests Reported in the Maghreb

Almost perfectly timed rainfall through the 1984/85 crop year is credited for record grain harvests in Tunisia and Eastern Algeria. Tunisia's grain harvest estimate is 2.081 million tons, up 90 percent from last year. Wheat production is estimated at 1.38 million tons: 1.067 million tons durum and the remainder bread wheat. Barley production is placed at 700,000 tons, more than double last year's crop. Algeria recorded a 3.05-million-ton grain harvest, exceeding the 1956 record of 2.6 million tons. Wheat production reached 1.646 million tons: 1.072 million durum and 574,000 bread wheat. Barley production was 1.295 million tons and 107,000 tons for oats. Wheat yields of 1,500 kilos/hectare were recorded in Eastern Algeria, where they usually run about 800. [David Skully (202) 786-1680]

THAI CASSAVA PENETRATES NON-EC MARKETS

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Abstract: Thailand's cassava exports to non-European Community markets have expanded as a result of falling prices. A large surplus developed following restrictions placed on cassava exports to the European Community (EC). The export price has fallen so low that cassava is now competitive with corn in many countries, including Japan and Portugal. While cassava may displace coarse grain imports in those countries, more soybean meal, an important protein supplement, may be imported.

Keywords: Thailand, cassava, manioc, tapioca, agricultural policies, agricultural exports.

Summary

Cassava, also referred to as manioc and tapioca, is a major nongrain feed ingredient in the EC and an important food crop in Latin America, Africa, and Asia. Unlike many developing countries, Thailand produces cassava almost exclusively for export. It is not a food staple nor is it used extensively in the domestic livestock industry. The cassava export industry expanded as a result of EC agricultural policies which permitted nongrain feed imports to enter with minimal tariffs, while domestic grain prices were kept high and grain imports heavily taxed. When cassava imports reached a record of nearly 6 million tons in 1978, the EC pressured Thailand for a voluntary agreement to limit annual exports to the EC to 4.5 million tons by 1986. As a result, large surpluses developed in Thailand, lowering the f.o.b. price from an average \$108 per ton in 1984 to \$55 in June 1985 (2)*.

Cassava exports to non-EC countries are expanding and may displace some of their grain imports. Approximately 1.5 million tons of Thai cassava may be exported to them in 1985. Major importers include the Soviet Union, Japan, Portugal, North Korea, South Korea, and Taiwan. The United States has also begun to import small quantities, 14,000 tons through July 1985.

Cassava Produced for Food and Feed

Cassava is a staple food product in Africa, Latin America, and some Asian

countries. The sweet variety can be boiled, steamed, or roasted for human consumption, or processed into flour and starch for food and industrial use. The bitter variety is processed into tapioca chips and pellets and used as a high-energy feed ingredient in swine and poultry rations. Cassava is an extremely adaptable crop and can be grown under harsh conditions. It is easily propagated, high yielding, requires little labor, resists drought and pests, and is a reliable staple and source of carbohydrates (7).

Approximately 128.6 million tons of cassava were produced worldwide in 1984. Major producers include Brazil, Thailand, Indonesia, Zaire, and Nigeria. While Thailand produced only 15.5 percent of 1984's crop, it exported 89 percent of all cassava products traded. The only other significant exporters are Indonesia and China (4). Thailand has become the leading cassava exporter for two reasons. First, it has been able to supply the EC with consistent, large quantities at competitive prices. Second, Thai farmers and entrepreneurs have developed the industry after an initial foreign investment by quickly responding to international market conditions (7). The Thai Government aided the industry by allowing cassava products to be freely traded.

Prior to 1984, Thailand did not use its cassava output domestically. Production expanded entirely in response to export demand. Cassava is grown in 36 out of 72 provinces on 1.4 million hectares (7 percent of Thailand's arable land). Production is centered in the Northeastern region which is characterized by poor soil, drought, and low

*Numbers in parentheses refer to literature cited at the end of this article.

Cassava root production

| Country | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 | 1984 |
|---------------------|-------|-------|-------|-------|-------|-------|-------|-------|
| Million metric tons | | | | | | | | |
| Africa | 43.4 | 42.9 | 44.9 | 46.5 | 47.5 | 50.6 | 43.4 | 50.0 |
| Ghana | 1.8 | 1.9 | 1.7 | 1.8 | 1.9 | 2.0 | 1.5 | 1.9 |
| Mozambique | 2.5 | 2.5 | 2.7 | 2.8 | 2.9 | 2.9 | 1.9 | 2.2 |
| Nigeria | 10.6 | 11.0 | 10.5 | 11.0 | 11.0 | 11.7 | 10.0 | 12.0 |
| Tanzania | 4.3 | 4.3 | 4.6 | 4.6 | 4.8 | 5.0 | 5.4 | 5.6 |
| Zaire | 12.1 | 10.9 | 12.0 | 12.2 | 13.0 | 14.2 | 14.6 | 14.3 |
| South America | 31.1 | 30.7 | 30.0 | 29.0 | 30.4 | 30.2 | 28.2 | 27.3 |
| Brazil | 25.9 | 25.3 | 25.0 | 23.4 | 24.8 | 24.0 | 21.7 | 20.8 |
| Colombia | 1.9 | 2.0 | 1.9 | 2.2 | 2.2 | 2.0 | 2.1 | 2.0 |
| Asia | 39.1 | 45.8 | 41.5 | 42.8 | 47.1 | 45.5 | 45.2 | 50.7 |
| China | 2.5 | 2.6 | 2.7 | 3.2 | 3.3 | 3.7 | 3.9 | 4.1 |
| India | 6.4 | 5.7 | 6.0 | 5.8 | 5.8 | 5.3 | 5.1 | 5.4 |
| Indonesia | 12.5 | 12.9 | 13.7 | 13.5 | 13.7 | 13.0 | 12.2 | 14.7 |
| Philippines | 1.7 | 1.9 | 2.2 | 2.3 | 2.3 | 2.0 | 2.3 | 2.3 |
| Thailand | 12.4 | 18.4 | 12.1 | 13.6 | 17.7 | 17.8 | 17.8 | 20.0 |
| World | 114.6 | 120.7 | 117.6 | 119.5 | 126.1 | 126.6 | 122.0 | 128.6 |

Source: FAO Food Outlook, 1985.

farm incomes. The industry contributes up to 30 percent of the average agricultural income in the country's poorest region (3). Cassava is Thailand's leading export crop after rice. Therefore, major changes in the world market affect an important source of foreign exchange earnings as well as the country's development strategy in the Northeast.

Tapioca Industry Expanded Rapidly

Prior to the mid-1950's, Thailand produced less than 500,000 tons of cassava per year and processed it all into starch and flour for export to the United States, Japan, and Taiwan. In 1956, a German trader in Thailand discovered that the residue from starch extraction could be used as a high-energy feed ingredient in Europe. European demand soon began to outstrip the flour and starch mills' capacity and tapioca meal began to be produced. Tapioca chips, which replaced the meal in 1960, are produced by mechanically cutting the cassava roots into small pieces. The pieces are then spread onto a drying platform in the sun until the moisture content is suitably low.

In 1967, German investors introduced pelleting machines and plants. The machines press the chips into either hard or soft (native) pellets. Shipping and storing pellets is cleaner and more efficient than chips. Pellet sales to the EC expanded rapidly, increasing tapioca exports from 337,307 tons in 1967 to 5.7

million in 1978 (1). At that point, EC coarse grain producers began to lobby for import restrictions. In 1981, Thailand signed a voluntary agreement with the EC limiting tapioca exports to the Community.

The EC has been the world's only significant importer of tapioca products (except for flour and starch). Tapioca's success in this market is a direct result of the Community's Common Agriculture Policy (CAP). The CAP has kept EC grain prices higher than world prices by providing price supports for domestic production and placing variable levies on grain imports. Nongrain feeds and vegetable proteins are exempt from the levy. Tapioca enters the Community with a 6-percent ad valorem tariff. Other nongrain feeds such as corn gluten and citrus pulp enter duty free as does soybean meal, an important supplement to the high energy, low protein nongrain feeds. The tariff system gave the nongrain feeds a price advantage over coarse grains that, until 1984, was not found in any other world market.

Tapioca, in particular, benefited from the CAP. A study of nongrain feed ingredients in the Netherlands, the major cassava importer, revealed that tapioca accounts for 15 percent of the raw material used to produce mixed feed. It is used primarily in swine and poultry rations but rarely mixed in dairy or cattle feed. Therefore, tapioca does not compete with other nongrain feeds such as corn gluten

and citrus pulp used in cattle feed. The study also demonstrated that tapioca replaced grain in mixed feeds on a 4:5 basis (100,000 tons of tapioca replaced 125,000 tons of grain, with protein meal making up the balance). The data suggested that tapioca displaced 1.5 million tons of coarse grain imports, particularly U.S. corn, in 1981/82 (8).

Tapioca's price advantage over corn has become significant. One ton of tapioca and soymeal mixed together (80 percent tapioca and 20 percent soybean meal) substitutes for one ton of grain. In August 1985, the tapioca-soybean ration price was 41 percent below the price of corn.

EC Quota Creates Domestic Surplus

In 1981, alarmed by the large quantities of tapioca imports, the EC pressured Thailand into agreeing to voluntary export restrictions. Thailand agreed to limit tapioca exports to the EC to 5 million tons annually in 1983 and 1984 and to 4.5 million in 1985 and 1986.

To offset the effect of these export restrictions on domestic prices, the Government tried to increase exporter stocks by issuing export quotas based on stock holdings. As a result, the farm price for cassava roots rose 12 percent in 1983. The return to cassava became 100 percent higher than to corn and 60 percent higher than to rice. The area planted to cassava expanded 3 percent and production increased 11 percent

from 17.8 million tons to 20 million (7.3 million of processed products) (5).

Beginning stocks reached 915,000 tons in 1984. Total supply rose to 8.2 million. Exports totaled 6.4 million tons (including 465,000 tons of flour). Still, area and production expanded 1 percent in 1984, despite the 1.5 million tons of carryover stocks.

Wholesale prices plummeted the first 3 months of 1985. In January, the wholesale price was already down to \$57 per ton from \$90 in January 1984. By the end of March, the price had fallen to \$38. Prices rose back to \$55 in June in anticipation of continued large sales to non-EC buyers.

In the past, sales to the EC constituted 95 percent of all tapioca exports. However, in the first 6 months of 1985, 25 percent of the sales were to non-EC markets. Low prices and aggressive marketing allowed tapioca to make inroads into a number of non-EC feed markets.

Soviet imports may rise to 500,000 tons, although lack of protein meals and good 1985/86 grain and forage harvests may limit additional purchases.

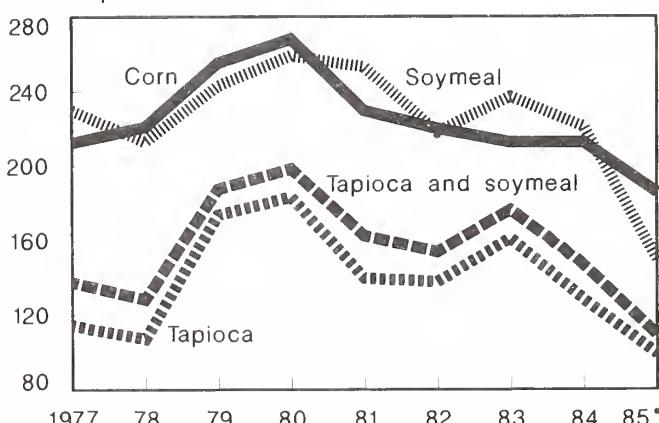
Portugal may import up to 500,000 tons of tapioca in 1985, replacing imported coarse grain. Corn in Portugal is priced at \$200 per ton versus cassava at \$80 c.i.f. Lisbon. There have also been press reports about the potential for Spanish cassava imports which, at current prices, could replace 40 percent of the barley used in swine rations. So far, the Government of Spain has refused to license tapioca imports because of large stock holdings of barley.

Japan may import up to 400,000 tons in 1985; South Korea, 225,000; North Korea, 600,000; and Taiwan could purchase 250,000 tons by the end of the year. East Asian tapioca imports may displace corn and sorghum imports. However, since protein meals are required to supplement tapioca-based feed rations, soybean and soymeal imports into the region may rise. South Korea has lowered import taxes on tapioca and is reducing trade restrictions on protein meal.

Even the United States, particularly Hawaii, has begun to import cassava, more than 14,000 tons in the first 6 months of 1985.

EC Feed Prices¹

Dollars per metric ton

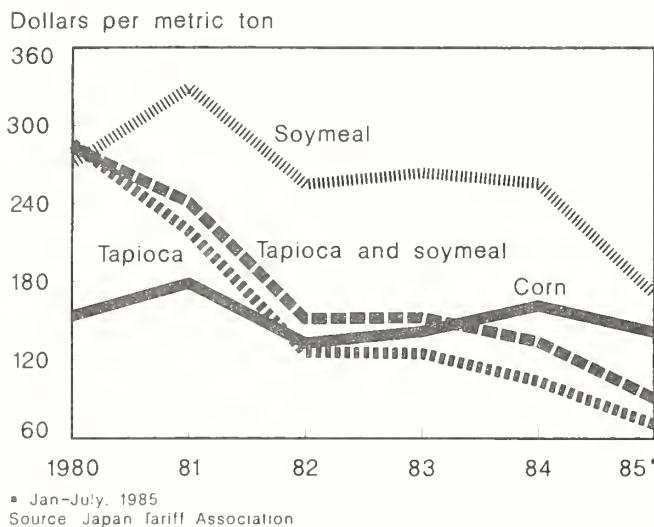


* Jan-Aug. 1985.

1/ C.i.f. Rotterdam plus applicable import tax

Source: Marche Agricola, Oil World, and ERS and FAS estimates

Japan's Feed Prices



In Japan, the price of the tapioca mix remained above that of corn until 1984 when Japan purchased a small quantity of pellets. By March 1985, the cost of the tapioca-soymeal mix equalled 74 percent of the price of corn. The Japanese were ready to purchase several hundred thousand tons.

Thai domestic tapioca consumption may expand to 150,000 tons in 1985, double 1984's. Prior to 1984, tapioca was not used in Thailand's burgeoning feed industry because the competitive price of corn and high prices of domestic soymeal made it uneconomical. One study showed that the tapioca price would have to be one-half that of corn before it would be used by the industry. Throughout 1985, wholesale tapioca prices have been one-half those of corn, if not less.

Despite falling prices, and government incentives to diversify, cassava production is expected to continue high. The low cost of production, combined with minimal risk in the harsh Northeast environment, still make cassava one of the most attractive crop alternatives. It is estimated that even if wholesale pellet prices fall to \$20 per ton, 4 to 5 million tons of pellets would continue to be produced. Farm prices would need to fall to \$15 per ton before Northeastern farmers would stop producing fresh cassava roots. This scenario would probably occur only if the EC halted all tapioca imports (10). Some Thai farmers have already diversified into corn and kenaf. As a result, Cassava production may fall 26 percent to 16.7 million tons in 1986.

To accelerate the diversification process, the Government is providing subsidized input packages to promote alternative crops such as sorghum, rubber, and cashews. So far, the programs have had little impact, but if cassava prices continue to fall, farmers may begin to take advantage of them.

Conclusions

Thailand will most likely continue to export millions of tons of tapioca, even at very low prices. Large sales to new markets such as Portugal, Japan, and Korea will likely continue as long as the cassava and soymeal/corn price ratio remains favorable. Utilization of cassava and soymeal will likely displace some corn and other coarse grains in those countries' feed rations.

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